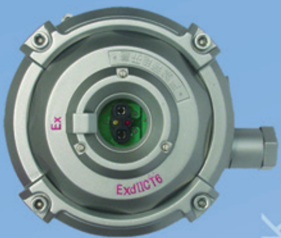
Interim Report 2008

ATTRACTION AND RETENTION OF HIGH-CALIBER TALENTS

FIRE ALARM SYSTEMS

INDUSTRIAL AND PUBLIC FACILITIES SECTOR

EXPORT MARKET



FIRE EXTINGUISHING SYSTEM

NATIONWIDE SALES NETWORK

SECURITY PRODUCTS

THE TECHNICAL CODE FOR REMOTE MONITORING SYSTEM OF URBAN FIRE PROTECTION

FIRE EXTINGUISHING PRODUCTS

MAINTENANCE SERVICE CENTERS

GST HOLDINGS LIMITED

海灣控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 0416

CONTENTS

CORPORATE INFORMATION

DIRECTORS

Executive Directors:

Song Jiacheng *(Chairman)*
Cao Yu
Peng Kaichen

Non-executive Directors:

Zeng Jun
Lee Kwan Hung, Eddie

Independent non-executive Directors:

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

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

SENIOR MANAGEMENT

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

STOCK CODE

Hong Kong Stock Exchange 416

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Cayman Islands
British West Indies

HONG KONG BRANCH REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
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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

CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT

The board (the "Board") of directors ("Directors") of GST Holdings Limited (the "Company") is pleased to present the unaudited condensed consolidated interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2008.

		Unaudited Six months ended 30 June	
	Notes	**2008 RMB'000**	2007 RMB'000
Turnover	3	**478,616**	318,690
Cost of goods sold		**(283,695)**	(169,840)
Gross profit		**194,921**	148,850
Other income	5	**18,146**	22,986
Distribution costs		**(67,811)**	(39,460)
Administrative and general expenses		**(70,648)**	(49,324)
Operating profit	6	**74,608**	83,052
Share of results of			
Jointly controlled entity		**3,184**	1,736
Associates		**(34)**	(25)
Profit before income tax		**77,758**	84,763
Income tax expenses	7	**(6,594)**	(1,849)
Profit for the period		**71,164**	82,914
Attributable to:			
Equity holders of the Company		**71,120**	82,899
Minority interests		**44**	15
		71,164	82,914
Earnings per share for profit attributable to equity holders of the Company	8		
– Basic (RMB cents)		**8.9 cents**	10.4 cents
– Diluted (RMB cents)		**N/A**	N/A

The accompanying notes on pages 8 to 19 are an integral part of these unaudited condensed consolidated interim financial information.

CONDENSED CONSOLIDATED INTERIM BALANCE SHEET

	Notes	As at 30 June 2008 Unaudited RMB'000	As at 31 December 2007 Audited RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	10	**316,556**	310,568
Prepaid operating lease for land		**9,519**	9,631
Intangible assets		**18,607**	16,024
Investment in a jointly controlled entity		**3,372**	188
Investment in associates		**37**	71
Deferred income tax assets		**3,676**	3,257
		351,767	339,739
Current assets			
Inventories	11	**237,242**	153,711
Trade receivables	12	**311,678**	253,385
Other receivables, deposits and prepayments		**73,393**	73,061
Amount due from a jointly controlled entity	13	**24,597**	24,373
Amount due from a related company	14	**3,534**	3,534
Restricted bank deposits		**11,958**	11,511
Cash and cash equivalents		**258,932**	352,605
		921,334	872,180
Total assets		**1,273,101**	1,211,919
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	15	**84,800**	84,800
Reserves	16	**926,845**	919,278
		1,011,645	1,004,078
Minority interests		**916**	872
Total equity		**1,012,561**	1,004,950

CONDENSED CONSOLIDATED INTERIM BALANCE SHEET

	Notes	As at 30 June 2008 Unaudited RMB'000	As at 31 December 2007 Audited RMB'000
LIABILITIES			
Current liabilities			
Trade payables	*17*	**136,953**	95,330
Other payables and accruals		**24,877**	17,062
Advance from customers		**84,761**	70,272
Tax payable		**13,949**	24,305
		260,540	206,969
Total liabilities		**260,540**	206,969
Total equity and liabilities		**1,273,101**	1,211,919
Net current assets		**660,794**	665,211
Total assets less current liabilities		**1,012,561**	1,004,950

The accompanying notes on pages 8 to 19 are an integral part of these unaudited condensed consolidated interim financial information.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

Six months ended 30 June 2008

	Unaudited Attributable to equity holders of the Company Share capital RMB'000	 Reserves RMB'000	 Minority interests RMB'000	 Total equity RMB'000
At 1 January 2008	**84,800**	**919,278**	**872**	**1,004,950**
Profit for the period	**–**	**71,120**	**44**	**71,164**
Employee share options scheme				
– Value of services provided	**–**	**767**	**–**	**767**
Dividend paid	**–**	**(64,320)**	**–**	**(64,320)**
At 30 June 2008	**84,800**	**926,845**	**916**	**1,012,561**

Six months ended 30 June 2007

	Unaudited Attributable to equity holders of the Company Share capital RMB'000	 Reserves RMB'000	 Minority interests RMB'000	 Total equity RMB'000
At 1 January 2007	84,800	795,678	833	881,311
Profit for the period	–	82,899	15	82,914
Employee share options scheme				
– Value of services provided	–	337	–	337
Dividend paid	–	(58,640)	–	(58,640)
At 30 June 2007	84,800	820,274	848	905,922

The accompanying notes on pages 8 to 19 are an integral part of these unaudited condensed consolidated interim financial information.

CONDENSED CONSOLIDATED INTERIM CASH FLOW STATEMENT

	Unaudited	
	Six months ended 30 June	
	2008	2007
	RMB'000	RMB'000
Net cash used in operating activities	**(9,857)**	(50,201)
Net cash used in investing activities	**(19,049)**	(127,584)
Net cash used in financing activities	**(64,767)**	(54,895)
Net decrease in cash and cash equivalents	**(93,673)**	(232,680)
Cash and cash equivalents at beginning of the period	**352,605**	492,333
Cash and cash equivalents at end of the period	**258,932**	259,653

The accompanying notes on pages 8 to 19 are an integral part of these unaudited condensed consolidated interim financial information.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

1. CORPORATE INFORMATION

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 Group is 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 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").

The unaudited condensed consolidated interim financial information of the Group for the six months ended 30 June 2008 (the "2008 Interim Financial Information") are presented in Renminbi ("RMB"), unless otherwise stated and have been approved for issue by the Board of Directors on 22 August 2008.

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

The 2008 Interim Financial Information have been prepared in accordance with International Accounting Standard ("IAS") 34 "Interim Financial Reporting" issued by the International Accounting Standards Board ("IASB"). The 2008 Interim Financial Information also comply with the applicable disclosure requirements of the Hong Kong Companies Ordinance and the disclosure provisions of the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange. The 2008 Interim Financial Information should be read in conjunction with the Group's annual financial information for the year ended 31 December 2007 (the "2007 Financial Information") which have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as well as interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC-Int").

Except as described below, the accounting policies adopted in the 2008 Interim Financial Information are consistent with those of the 2007 Financial Information.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

The following new standards, amendments to standards or interpretations are mandatory for the first time for the financial year beginning 1 January 2008 but are not currently relevant for the Group.

- IFRIC – Int 11, 'IFRS 2 – Group and treasury share transactions';
- IFRIC – Int 12, 'Service concession arrangements'; and
- IFRIC – Int 14, 'IAS 19 – the limit on a defined benefit asset, minimum funding requirements and their interaction'.

3. TURNOVER

	Unaudited Six months ended 30 June	
	2008	2007
	RMB'000	RMB'000
Sale of goods		
Fire alarm systems	**352,304**	223,394
Fire alarm network systems	**8,645**	6,698
Video entry systems and building automation systems	**22,566**	36,219
Electric power meters	**15,356**	9,316
Provision of services		
Installation services	**79,745**	43,063
	478,616	318,690

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

4. 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

	Unaudited						
	Sale of goods				Provision of services		
	Fire alarm systems RMB'000	Fire alarm network systems RMB'000	Video entry systems and building automation systems RMB'000	Electric power meters RMB'000	Installation services RMB'000	Corporate RMB'000	Group RMB'000
Six months ended 30 June 2008							
Turnover	352,304	8,645	22,566	15,356	79,745	–	478,616
Segment results	83,512	833	2,236	(1,408)	(6,607)	(5,612)	72,954
Interest income							1,654
Operating profit							74,608
Share of results of							
– Jointly controlled entity	3,184	–	–	–	–	–	3,184
– Associates	–	(34)	–	–	–	–	(34)
Profit before income tax							77,758
Income tax expenses							(6,594)
Profit for the period							71,164
Six months ended 30 June 2007							
Turnover	223,394	6,698	36,219	9,316	43,063	–	318,690
Segment results	71,052	3,811	8,702	(81)	2,308	(7,337)	78,455
Interest income							4,597
Operating profit							83,052
Share of results of							
– Jointly controlled entity	1,736	–	–	–	–	–	1,736
– Associates	–	(25)	–	–	–	–	(25)
Profit before income tax							84,763
Income tax expenses							(1,849)
Profit for the period							82,914

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

Other segment terms included in the income statements are as follows:

	Unaudited						
	Sale of goods				Provision of services		
	Fire alarm systems RMB'000	Fire alarm network systems RMB'000	Video entry systems and building automation systems RMB'000	Electric power meters RMB'000	Installation services RMB'000	Corporate RMB'000	Group RMB'000
Six months ended 30 June 2008							
Depreciation	8,541	128	381	188	1,019	384	10,641
Amortisation of prepaid operation lease for land	112	–	–	–	–	–	112
Developments costs amortisation	1,450	–	–	–	–	–	1,450
Provision for impairment of receivables	–	179	–	783	507	–	1,469
Six months ended 30 June 2007							
Depreciation	6,756	104	827	181	783	133	8,784
Amortisation of prepaid operation lease for land	112	–	–	–	–	–	112
Developments costs amortisation	873	–	–	–	–	–	873
Provision for impairment of receivables	2,500	(7)	–	30	242	–	2,765

The segment assets and liabilities at 30 June 2008 and capital expenditure for the six months then ended are as follows:

Segment assets	806,491	115,204	35,938	61,397	215,594	38,477	1,273,101
Segment liabilities	173,437	5,170	7,729	8,745	61,998	3,461	260,540
Capital expenditure	9,439	901	421	100	5,875	9	16,745

The segment assets and liabilities at 31 December 2007 and capital expenditure for the six months 30 June 2007 are as follows:

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	85,640	132	10,488	13	2,627	–	98,900

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

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

5. OTHER INCOME

	Unaudited Six months ended 30 June	
	2008	2007
	RMB'000	RMB'000
Government subsidies	**225**	–
Value-added tax refund	**12,657**	18,238
Interest income	**1,654**	4,597
Sales of raw material, net of cost	**3,610**	151
	18,146	22,986

6. OPERATING PROFIT

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

	Unaudited Six months ended 30 June	
	2008	2007
	RMB'000	RMB'000
Charging:		
Staff costs (excluding directors' emoluments)	**65,599**	43,530
Research costs	**4,977**	3,442
Development cost amortisation	**1,450**	873
Depreciation	**10,641**	8,784
Provision for impairment of receivables	**1,469**	2,765
Amortisation of prepaid operating lease for land	**112**	112
Net exchange loss	**2,783**	3,045
Crediting:		
Interest income	**(1,654)**	(4,597)

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

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

7. INCOME TAX EXPENSES

	Unaudited Six months ended 30 June	
	2008	2007
	RMB'000	RMB'000
Current income tax	**7,013**	2,110
Deferred income tax	**(419)**	(261)
	6,594	1,849

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 increases the income tax rates for foreign invested enterprises from 15% or 24% to 25%. Pursuant to the new CIT Law, effective from 1 January 2008, enterprises that have applied and been granted High/New Technology Enterprise ("HNTE") will be able to enjoy a reduced tax rate of 15%. However, as of 30 June 2008, the detailed implementation rules relating to obtaining the HNTE status have not been published.

Gulf Security Technology Company Limited ("GST"), Beijing Gulf Electric Meters Company Limited ("Gulf Meters") and Qinhuangdao Gulf Fire Prevention Network Company Limited ("Gulf Network"), subsidiaries of the Group, as Foreign Investment Enterprises ("FIEs") registered in a designated development zone, have been exempted from taxation for the first two profitable years and a 50% relief from the applicable national PRC income tax rate for the next three years. In order to increase the productivity, GST constructed the 3rd phase of the factory (the "3rd Phase") which was completed for production since August 2006. According to relevant tax laws and regulations in the PRC, the additional investment of the 3rd Phase is exempt from taxation for the first two profitable years and a 50% relief from the applicable national PRC income tax rate for the next three years.

After the new CIT Law effective from 1 January 2008, designated as HNTE, the applicable PRC income tax rate for GST and Gulf Network for 2008 is 18% (2007: 15%) but subject to re-assessment in 2008 by the respective local tax bureau in view of the new CIT Law. The applicable PRC income tax rate for Gulf Meters is 25% (2007: 24%) but also subject to re-assessment in 2008 by the respective local tax bureau in view of the new CIT Law.

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, Beijing Gulf Engineering has been exempted from taxation for the first three profitable years and a 50% relief from the applicable national PRC income tax rate for the next three years. The applicable PRC income tax rate of Beijing Gulf Engineering for 2008 is 25% (2007: 15%). Meanwhile, the aforesaid taxation exemption and the applicable PRC income tax rate for 2008 of Beijing Gulf Engineering are subject to re-assessment in 2008 by the respective local tax bureau in view of the new CIT Law.

Consequently, when recognizing deferred taxes as at 30 June 2008, the Company applied a tax rate of 25% on temporary differences.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

8. 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 period.

	Unaudited Six months ended 30 June	
	2008	2007
Profit attributable to equity holders of the Company (RMB'000)	**71,120**	82,899
Weighted average number of ordinary shares in issue (thousands)	**800,000**	800,000
Basic earnings per share (RMB cents per share)	**8.9**	10.4
Diluted earnings per share (RMB cents per share)	**N/A**	N/A

For the six months ended 30 June 2008, the share options did not have a dilutive effect because the average market price of ordinary shares during the period did not exceed the exercise price of the options. There was no dilutive potential ordinary share outstanding for the six months ended 30 June 2007.

9. DIVIDENDS

The Board does not recommend the payment of a dividend for the six months ended 30 June 2008 (six months ended 30 June 2007: Nil).

A final dividend of RMB8.04 cents per share (approximately equivalent to HK8.56 cents) for the year ended 31 December 2007, amount to total dividend of RMB64,320,000 (approximately equivalent to 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.

10. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2008, additions to property, plant and equipment amounted to approximately RMB16,745,000 (six months ended 30 June 2007: approximately RMB98,900,000) and disposals amounted to approximately RMB636,000 (six months ended 30 June 2007: approximately RMB377,000).

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

11. INVENTORIES

	As at 30 June 2008 Unaudited RMB'000	As at 31 December 2007 Audited RMB'000
Raw materials	74,156	50,572
Work-in-progress	28,353	16,659
Finished goods	91,997	43,491
	194,506	110,722
Components delivered to customers in respect of contracts not yet completed at year end	42,736	42,989
At cost, less provision for obsolete inventories	237,242	153,711

12. 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 longer 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 30 June 2008 Unaudited RMB'000	As at 31 December 2007 Audited RMB'000
0 to 90 days	161,284	148,367
91 to 180 days	42,261	45,014
181 to 365 days	73,891	31,422
Over 365 days	61,742	54,613
	339,178	279,416
Less: Provision for impairment of receivables	(27,500)	(26,031)
	311,678	253,385

The carrying amounts of the Group's trade receivables approximated its fair value as at 30 June 2008 because of the short maturities of these receivables.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

13. AMOUNT DUE FROM A JOINTLY CONTROLLED ENTITY

	As at 30 June 2008 Unaudited RMB'000	As at 31 December 2007 Audited RMB'000
0 to 90 days	**11,533**	3,694
91 to 180 days	**6,981**	13,908
181 to 365 days	**1,265**	5,666
Over 365 days	**4,818**	1,105
	24,597	24,373

The balance is unsecured, interest-free and mostly repayable in accordance with the trading terms.

14. AMOUNT DUE FROM A RELATED COMPANY

	As at 30 June 2008 Unaudited RMB'000	As at 31 December 2007 Audited RMB'000
Beijing Gulf Jingcheng Property Development Company Limited ("Beijing Gulf Property")	**3,534**	3,534

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

Amount due from a related company are unsecured, interest free and repayable in accordance with the trading terms.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

15. SHARE CAPITAL

	Authorised	
	Common shares of HK$0.1 each	
	No. of shares	RMB'000
At 1 January 2007 and at 31 December 2007	2,000,000,000	212,000
At 1 January 2008 and at 30 June 2008	2,000,000,000	212,000

	Issued	
	Common shares of HK$0.1 each	
	No. of shares	RMB'000
At 1 January 2007 and at 31 December 2007	800,000,000	84,800
At 1 January 2008 and at 30 June 2008	800,000,000	84,800

16. RESERVES

	Unaudited						
	Share premium	Merger reserves	General reserve	Other reserves	Currency translation adjustments	Retained earnings	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Six months ended 30 June 2008							
At 1 January 2008	250,031	102,902	111,528	1,224	15	453,578	919,278
Dividend paid	(64,320)	–	–	–	–	–	(64,320)
Profit for the period	–	–	–	–	–	71,120	71,120
Employee share option scheme							
– value of service provided	–	–	–	767	–	–	767
At 30 June 2008	185,711	102,902	111,528	1,991	15	524,698	926,845
Six months ended 30 June 2007							
At 1 January 2007	308,671	102,902	91,810	–	15	292,280	795,678
Dividend paid	(58,640)	–	–	–	–	–	(58,640)
Profit for the period	–	–	–	–	–	82,899	82,899
Employee share option scheme							
– value of service provided	-–	–	–	337	–	–	337
At 30 June 2007	250,031	102,902	91,810	337	15	375,179	820,274

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

17. TRADE PAYABLES

	As at 30 June 2008 Unaudited RMB'000	As at 31 December 2007 Audited RMB'000
0 to 90 days	**111,684**	80,139
91 to 180 days	**14,429**	9,810
181 to 365 days	**6,922**	2,937
Over 365 days	**3,918**	2,444
	136,953	95,330

18. COMMITMENTS

(a) Capital commitments

	As at 30 June 2008 RMB'000	As at 31 December 2007 RMB'000
Property, plant and equipment	**3,240**	2,368

(b) Operating lease commitments for buildings

	As at 30 June 2008 RMB'000	As at 31 December 2007 RMB'000
First year	**3,143**	1,547
Second to fifth year	**2,730**	2,453
After the fifth year	**1,479**	479
	7,352	4,479

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

19. RELATED PARTY TRANSACTIONS

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

		Unaudited Six months ended 30 June	
	Notes	**2008 RMB'000**	2007 RMB'000
Sales to jointly controlled entity	*(i)*	**22,774**	19,839
Repair cost paid to a related company	*(ii)*	**44**	26
Services rendered to a related company	*(iii)*	**–**	1,599
Rental paid to a related company	*(iv)*	**40**	120
Acquisition of office premises	*(v)*	**–**	81,696

Notes:

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

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

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

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

(v) 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.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Highlights

Despite the challenging business environment brought about by the keen market competition and the dramatic surge in labor and raw material costs, the Group recorded a significant increase of 50.2% in its turnover to RMB478,616,000 for the six months ended 30 June 2008. Yet net profit fell 14.2% to approximately RMB71,120,000 due to receipt of tax refund for embedded software of year 2006 booked in the corresponding period last year.

Positioned as a total fire and security solution provider, the Group's market share in the fire alarm systems market rose to 35%. As compared to the same period last year, the Group's gross profit was up 31.0% to approximately RMB194,921,000, and total gross profit margin slid by 6 percentage points to 40.7%, which was attributable to the restructuring of the Group's business mix that gave rise to an increase of business segments with lower margin.

Market Review

Due to the stipulation of the New Labor Contract Law in the PRC of the People's Republic of China since 1 January 2008, enterprises encountered unprecedented burden in labor cost. Being a responsible and law-abiding corporation, our Group has made commitment on staff remuneration and welfare in order to improve corporate management and operational efficiency.

In addition, the relentless appreciation of RMB and inflation caused raw material cost to soar more than 20% to 30%, which exerted immense pressure on corporations. Production cost climbed by 40% to 50% under various unfavorable conditions, wearing down the price reduction capacity in our products. Nevertheless, superior quality and diversified product portfolio sustained our Group's competitive edge and enabled us to take up the largest market share for several years in a row.

The PRC becomes the fastest growing market in the world given that scale of its fire alarm system market is growing by 12% to 15% annually. Amid the intense market competition in the fire alarm system industry, our Group avoided engaging in low price fight with its counterparts but concentrated efforts on adding value to products through strengthening elements such as product design, branding and technology etc. and providing timely pre-sales, before-sales and after-sales services. Besides, co-ordination of the Beijing Olympics and the World Expo Shanghai, along with the casualties and property loss caused by natural disasters like snowstorm and the Sichuan earthquake urged different sectors to seek new fire safety solutions, thus enabled the Group to further expand market share. Furthermore, international clients are now in an enthusiastic search for high quality fire safety products supplier, which creates a respectable development capacity in the overseas export market for the Group.

China is the world's second largest security products market and manufacturing base after the U.S. The security product market in the PRC expands at a stunning speed and is anticipated to reach approximately US$25 billion in 2010. Urbanization together with the development of residential projects brought about tremendous opportunities for the Group's household security system business on top agenda. The Ministry of Public Security's development of 'Safe Cities', installation district alarm network system by cities as well as social security monitoring system opens up promising business opportunities in the security market.

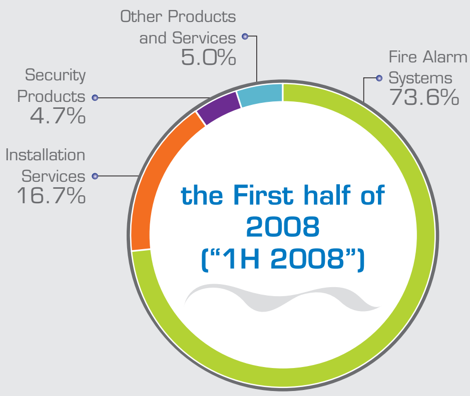
MANAGEMENT DISCUSSION AND ANALYSIS

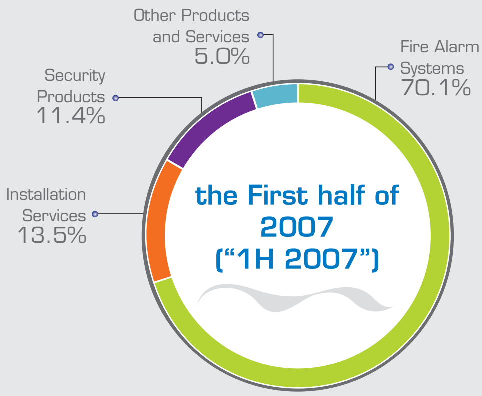
Business Review

The Group is a total fire and security solution provider engaged in R&D, production, sales and distribution, installation, and after-sales services of fire alarm products, fire extinguishing products, intelligent security products, safety and protection products, and energy saving and environmental control products for our customers in a wide spectrum of sectors, including construction, public facilities, industrial facilities and special venues. For the period under review, newly-signed contracts amounted to RMB688,171,000 (first half of 2007: RMB507,900,000), an increase of 35.5% when compared to that of last year. The amount for outstanding contracts on hand jumped by 41.9% from last year to RMB667,797,000 (first half of 2007: RMB470,500,000). The outstanding contracts on hand are expected to be carried out gradually and the income shall be reflected in the second half of 2008 and the year 2009.

Turnover Analysis by Business Segments

	Six months ended 30 June		
	2008 RMB' million	2007 RMB' million	Change %
Fire alarm systems	**352.3**	223.4	+57.7%
Installation services	**79.7**	43.1	+85.2%
Security products	**22.6**	36.2	–37.7%
Other products and services	**24.0**	16.0	+49.9%
Total	**478.6**	318.7	+50.2%





MANAGEMENT DISCUSSION AND ANALYSIS

Fire Alarm Systems

The PRC government has carried out stricter public and industrial safety monitoring policy to rectify order in the fire alarm market. A strong demand for high quality and reliable fire alarm products and systems was produced by an apparently-heaved awareness of fire safety among people in the PRC, thus boosting the sales volume of fire alarm systems. Turnover of fire alarm systems in the period under review increased by 57.7% to RMB352,304,000, taking up approximately 73.6% of total turnover. The Group's market share in the fire alarm industry in the PRC struck a new height, growing from 32% to 35%, and continued to uphold the leading position in the fire safety industry in the PRC. Our Group's market share was more than double of the second and third largest competitors in the market. For the first six months in 2008, the influence of the Group's sales network was enhanced with the number of sales offices increased to 125. The Group has also been implementing measures to stabilize the selling price of its products and services. Although the gross profit for the Group's core business-fire alarm business has slightly dropped by 3.1 percentage points when compared to that of last year, the downturn has ceased in the first half of 2008 as it has bounced back from a low point of 46.7% in the second half of 2007 to 47.8% (first half of 2007: 50.9%). In spite of the slight decrease in gross profit margin resulted from lowering of prices and the change in exchange rate in the period under review, industrial and public facilities sectors (gross profit margin: 46.9%) and export clients (gross profit margin: 53.2%) remained the pillars in the development of fire alarm business with higher gross profit margin as compared to that of residential and commercial clients (gross profit margin: 46.1%). In the period under review, industrial and public facilities markets expanded substantially with a leap of 78.2% in sales volume while export market and residential and commercial market swung up to 56.9% and 49.7% respectively.

Being one of the few corporations in the PRC receiving the complete set of new CCC certifications, the Group insisted on providing high quality products to cater for different needs of customers and fulfill the requirements of regulatory institutions. The Group is also actively engaged in the research and development of new products to enrich product portfolio, including GB-QB-GST300 locomotive fire alarm and monitoring system (機車火災報警監控系統)、GST-GM image display device (圖形顯示裝置)、GST-QKP01 gas extinguishing control (氣體滅火控制器)、GST-DH9501 electrical fire monitoring control (電氣火災監控探測器)、domestic smoke senor (家用感煙探測器) and new generation UV flame detector (新一代紫外火焰探測器) etc and it is anticipated that new products shall be available for sale on market in the near future.

MANAGEMENT DISCUSSION AND ANALYSIS

Turnover Analysis of firm Alarm Systems by Customer Types

	Six months ended 30 June		
	2008	2007	Change
	RMB' million (%)	RMB' million (%)	%
Residential and commercial	**214.4 (60.8%)**	143.2 (64.1%)	+49.7%
Industrial and public facilities	**101.7 (28.9%)**	57.1 (25.6%)	+78.2%
Export	**36.2 (10.3%)**	23.1 (10.3%)	+56.9%
Total	**352.3 (100.0%)**	223.4 (100.0%)	+57.7%

Industrial and Public Facilities Market

Turnover derived from industrial and public facilities clients soared by 78.2% to approximately RMB101,716,000 as compared to that of last year culminating in an increase in share of the turnover in fire alarm system from 25.6% in the same period of 2007 to 28.9%. Its growth impetus was further stimulated by the rapid industrialization. During the period under review, the Group provided products and services for clients from different industries, which covered communications, electricity, iron and steel, petrochemical, hospitals, banks, public utility, airports and railways, and so on. Completed projects include: the Lingwu Power Plant in Ningxia (寧夏靈武發電廠), the Yunnan-Guangdong HVDC Transmission Project in Southern China (中國南方電網雲廣直流工程), the 2*300MW Fushun Power Plant of China Power Investment Corporation (中電投撫順發電廠2*300MW), the No. 2 Steel Making Works of Angang Steel Company Limited (鞍鋼股份有限公司二煉鋼), the Shanghai Factory of Meters-Bonwe (上海美特斯邦威廠房), the Fire Station of Tianjin City (天津市公安消防局), the Extension of Beijing-Tianjin Intercity Railway (京津城際鐵路延長線), the Phase IV Communication Base Station of Hubei Mobile (湖北移動通信基站四期) and the Qingdao Railway Station (青島火車站) etc. Industrial and public facilities sectors shall become one of the Group's powerful growth drivers as its high profitability bestowed by high gross profit margin would heighten revenue from fire alarm system product. Higher return could be brought to the Group, as sales of product would also promote installation and repair and maintenance services.

MANAGEMENT DISCUSSION AND ANALYSIS

Export Market

The international market is one of the Group's main focuses in development. The Group has had its trademark registered and protected in 89 countries and areas around the world in an attempt to establish new footholds. Besides, the Group eagerly pursued overseas certifications for products in the first half of 2008 to enhance the Group's brand awareness in the overseas markets. After obtaining four LPCB certifications for products including DI/DC-9204 manual alarming button (手動報警按鈕) and I-9105R reflex ultra red detector (反射式紅外探測器), the Group further obtained three UL certifications for products including DI/DC-M9204 encompassing manual alarming button (手動報警按鈕) and C-9102UL fire disaster detector (煙火災探測器). Leveraging on the competitive pricing, and diversified and high quality product portfolios, the Group achieved great success in the exploration of overseas markets. During the period under review, the Group's international sales network covers more than 85 countries and regions such as Asia, the Middle East, Europe and the US, six of which are new markets including Republic of Azerbaijan in Asia, Ghana and Rwanda in Africa, Poland and Netherlands in Europe and Canada in North America.

Extensive international recognition exemplified the GST® brand influence. Promotion by our professional sales team further propelled the Group's product sales in the international market. During the period under review, a considerable increase in the Group's product sales was recorded and the gross profit margin also remained at a satisfactory level of 53.2%. In the first half of 2008, the turnover of export bounced by 56.9% to RMB36,164,000, maintaining the same share of 10.3% of the turnover in fire alarm system as per the corresponding period of 2007.

Installation Services

During the period under review, the Group is pleased with the performance of the installation services as its turnover rocketed by 85.2% from RMB43,063,000 in the corresponding period of last year to RMB79,745,000. However, the development of installation services was still at a preliminary stage, plus unpredictable fluctuations in gross profit margin due to steep raw material and labor costs, the gross profit margin sank from 28.1% in the same period in 2007 to 8.8% in 2008. Large expansion capacity in the market share for the Group's installation services allowed broadening of the Group's recurring income stream. During the period under review, the outstanding contracts on hand increased by 56.9% to RMB263,450,000 (first half of 2007: RMB167,900,000). It is anticipated that the income contribution upon the execution of the outstanding contracts in the year shall be reflected in the second half of 2008 and the year 2009.

As a total fire and security solution provider in the PRC that provides both comprehensive self-manufactured products and installation services, the Group provided clients with excellent installation services by capitalizing on the superb product functions, thorough understanding of products, rich experience in installation and technical support. Projects Completed by the Group during the period under review include: the Tianjin Railway Station Reconstruction Project (天津站改擴建工程), Fire Alarm and Control System for Hydrogen Production Project of Natural Gas Project of China Shenhua (神華天然氣制氫專案火災報警控制系統), the Building Automation Systems of Yingbin Building of Baotou Hotel, Inner Mongolia (內蒙古包頭賓館迎賓樓樓宇自控), the Fire Reconstruction Project of Olympic Training Ground at the Beijing Sport University (北京體育大學奧運訓練場消防改造工程), the 2*300MW Automatic Electric Fire Alarm System of China Resources Caofeidian Electric Power Factory (華潤電力曹妃甸電廠2*300MW火災自動報警系統), the Fujian Oil Refining and Ethylene Project (福建煉油乙烯專案), Fire Safety, Video and Digital Images Monitor Control Project of Qinhuangdao Olympic Sports Centre (秦皇島市奧體中心消防及電視圖像監控系統工程) and the 2X330MW Thermal Power Generating Unit of Guodian Chengde Corporation (國電承德熱電有限公司2X330MW供熱機組消防系統) etc.

MANAGEMENT DISCUSSION AND ANALYSIS

Security Products

The rapid rise of security market entailed great potential of sales of security products. The Group endeavored to apply advanced technology application on security products through proactive research and development was determined to become a technology leader in the security products industry. The Group focused on selling self-manufactured high-end security products and providing supporting services for various security products. The Group's share in the security market continued to go up as the Group's products earned more recognition in aspects like functions and specifications. Yet turnover of security products dropped by 37.7% to RMB22,566,000. For the six months ended 30 June 2008. Gross profit margin was down 5.3 percentage points to 33.2%, which was attributable to the delay of stock supply owing to the snowstorm in early 2008. During the period under review, however, contracts on hand of security products reached RMB59,110,000. Therefore, it is expected that the total turnover for the year 2008 shall have a positive growth from last year.

Other Products and Services

Other products and services include the sales of 119 fire alarm network system and electric power meters. With an exceptional 81.0% market share the Group mastered an unrivaled advantage. The Group provided and installed the corresponding system for 111 out of the 137 cities, which had installed the 119 fire network system. Turnover of 119 fire alarm network systems increased by 29.1% to RMB8,645,000 (first half of 2007: RMB6,698,000), which was attributable to 18 new joint city network centers including Zhanjiang, Dezhou, Dali, Xishuangbanna and Zhenjiang. Turnover of electric power meters recorded a faster growth and amounted to RMB15,356,000, representing an increase of 64.8% when compared to that of the previous year.

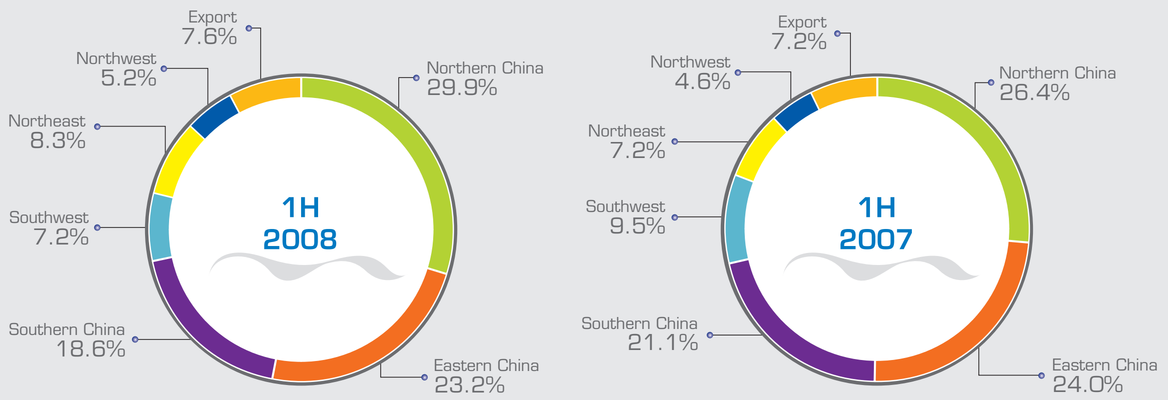
Nationwide Sales Network

Possession of the most extensive sales network across the nation earned an incomparable advantage for the Group over its counterparts. While expanding its sales network, the Group consolidated the leading position in the fire alarm system and related services, and the security products market through constant adjustment and re-organization of the sales offices for different business arms, which enhanced the sales and mutual support function. During the period under review, the number of sales offices reached 193, area covered far surpassed rivals. The Group enjoyed the advantage of scale economy over other industry players as the sales network not only enabled the Group to maintain close connections with clients in different regions, but also offer timely and comprehensive pre-sales, during-sales and after sales services.

Large nationwide sales network built up an ideal platform for international brands to make way into the PRC market. The Group grasped this opportunity to co-develop the mainland market with international brands by forming strategic partnerships and in turn takes the influence of partners as a way to open up other overseas market for more opportunities.

MANAGEMENT DISCUSSION AND ANALYSIS

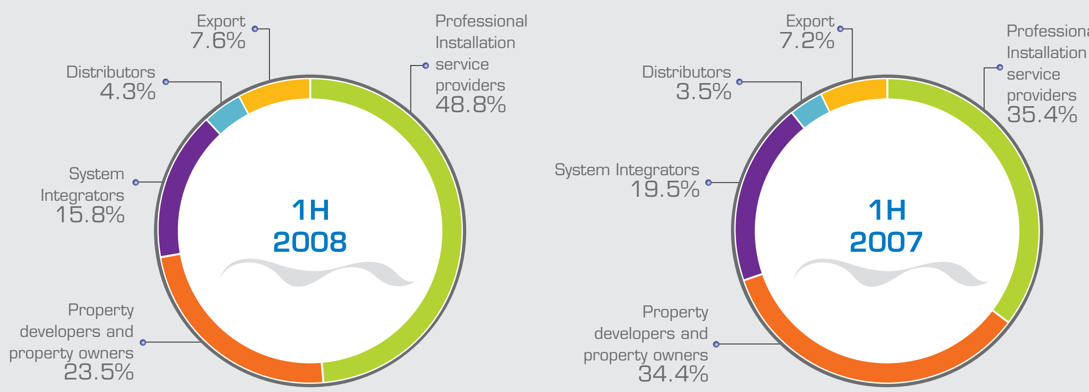
Turnover Analysis by Geographical Regions



Sales Channels

During the period under review, performance of the Group's major distribution channels was stable and specialized installers dominated. The Group actively promoted direct sales in the industrial sector, engineering sector and special venues sector.

Turnover Analysis by Sales Channels



MANAGEMENT DISCUSSION AND ANALYSIS

Operating Costs, Other Income and Tax

During the period, the share of the Group's overall operating cost in turnover increased by 1.0 percentage point when compared to that of the previous year. Against the backdrop of high inflation rate and the implementation of the New Labor Contract Law in the PRC, the Group executed stringent control to contain relevant operating expenses. For the six months ended 30 June 2008, distribution costs and general and administration expenses were RMB67,811,000 and RMB70,648,000 respectively, taking up 14.2% and 14.8% of turnover respectively. Furthermore, the dramatic increase in operating expenses was due to more offices and mounting average remuneration and social security expenses with increasing number of employees. The New Labor Contract Law compelled employers to shoulder greater responsibilities for employees by paying higher expenses including remuneration, over-time subsidies, medical, social security and annuity, raising the factory costs. In the operating costs and management expenses, remuneration cost jumped to 65.6% and 74.0% respectively.

Other income mainly included value-added tax refund, interest income and sales of raw materials of which value-added tax refund was reduced for the refund from embedded software in the same period of previous year. Moreover, the additional investment in the third phase factory of the Gulf Security Technology Limited is no longer exempt from taxation as the tax exemption period for first two profitable years has been passed, together with the implementation of the new enterprise income tax law, have raised the applicable PRC enterprise income tax rate for the Group to 9%. Therefore, tax expenses were higher than that of last year, amounting to RMB7,013,000 (first half of 2007: RMB1,849,000).

Future Prospects

Rising cost of raw materials caused by inflation, together with the increase in wages due to the stipulation of the "Labour Contract Law", propel to drum up the production cost. The appreciation of Reminbi against the US dollar has affected the Group's export sales volume. The series of "Tightened Monetary Policy" carried out by the PRC government led to rational adjustment in the PRC property market and stagnant transactions volume. These supply and demand factors have gravely raised the difficulty for the PRC fire alarm market to grow. With the enormous business opportunities brought by the snowstorms and Sichuan earthquake reconstruction, the Group would focus on developing fire alarm systems products, installation services, and security products in the second half of 2008.

The Group would put forth the following development plans in the second half of 2008:

1. Fire Alarm Systems

Fire alarm systems continued to contribute the greatest share to the Group's total turnover. Aiming at penetrating into the international market and enlarging the fire alarm market coverage, the Group would produce fire alarm system products that are more advanced, with better functions and higher competitiveness.

MANAGEMENT DISCUSSION AND ANALYSIS

2. *Installation & Repair and Maintenance Services*

Impacted by the "Tightened Monetary Policy" executed by the PRC government, there was an apparent slowdown in the growth of the PRC property market. However, the demand for installation and repair services was not affected due to the continuous heightening of the awareness of safety and protection needs and the market is yet to be opened up. The Group would also participate in the PRC government's investment of RMB500 billion in the snowstorms and Sichuan earthquake reconstruction and a significant growth in the turnover of installation and repair services in the second half of 2008 was anticipated. More resources would be put on building and enhancing the expertise of the professional installation services team in order to significantly increase share of the installation, repair and maintenance in the total turnover.

3. *Export Market*

Through active organization of various GST product promotion campaigns and increase in production accreditation and certification, the GST brand has become more well-known in the world. Steady growth in export sales was recorded in the first half of 2008. The Middle East would be the main export market in the latter half of the year. The Group also aims at exploring potential markets, such as Europe and the US in order to further expand the Group's international sales network.

4. *Security Products*

The Group is determined to lead the industry in the technological aspect with advanced technology through investing a great deal of resources in the research and development of new security products. In the second half of 2008, best effort to improve products' quality and obtain more awards and recognition in the market would be made to increase the competitiveness and sales volume of the security products.

5. *Nationwide Sales Network*

To consolidate the market leading position and acquire larger sales and distribution network coverage, the Group set up 193 sales offices totally in the PRC in the first half of 2008 and plans to open 200 sales offices totally in the second half of 2008. The Group would cement and integrate offices in the same region while developing sales network of each business and independent offices. Therefore, the Group's operation efficiency and effectiveness could be enhanced and the synergy effect of the sales network could be brought into full play.

Conclusion

While strengthening its market leading position, the Group is dedicated to capturing a larger market share and hence to benefit from the advantages and efficiency of a more integrated market to the Group endeavors to lead the industry in various aspects such as technological level, product variety and service quality through unceasingly investing resources in enhancing the product quality as well as the research and development of new products. The Group is determined to become an international corporation by obtaining more products internationally certified and accredited and building up strategic alliance with more multinational companies. The Group actively engaged in snowstorms and Sichuan earthquake reconstruction.

MANAGEMENT DISCUSSION AND ANALYSIS

WORKING CAPITAL, FINANCIAL RESOURCES AND BANK LOANS

For the six months ended 30 June 2008, the Group recorded operating cash outflow of approximately RMB9,857,000, representing a drop of 80.4% over last corresponding figure of RMB50,201,000 cash outflow which is mainly related to increase of trade receivables and inventory for the Group's business expansion. Cash used in investment activities amounted to approximately RMB19,049,000 (first half of 2007: RMB127,584,000), which was mainly for the purchase of plant and equipment. Cash used in financing activities amounted to approximately RMB64,767,000 (first half of 2007: RMB54,895,000) which was mainly for payout of 2007 final dividend.

The Group did not have any short-term or long-term bank loan at 30 June 2008 (at 31 December 2007: Nil). As such, the gearing ratio (being total debt divided by total shareholders equity) was zero at 30 June 2008 (at 31 December 2007: zero).

USE OF PROCEEDS FROM LISTING

The net proceeds from the Company's initial public offering on 30 June 2005 amounted to about RMB334,000,000, which will be applied for the following purposes as set forth in the Company's prospectus:

– Approximately RMB285,000,000 for constructing, expanding and upgrading the Group's manufacturing and related auxiliary facilities; and

– Approximately RMB49,000,000 for expanding and improving the Group's sales and distribution networks.

As at 30 June 2008, approximately RMB275,469,000 from the listing proceeds was used in the following manner:

– Approximately RMB224,016,000 for constructing, expanding and upgrading the Group's manufacturing and related auxiliary facilities; and

– Approximately RMB51,453,000 for expanding and improving the Group's sales and distribution network.

FOREIGN CURRENCY EXPOSURES AND TREASURY POLICY

The Group has to bear the risk of exchange rate change between the United States dollar and Renminbi. More than 94% of the Group's sales and raw material purchase are denominated in Renminbi. Though purchases of raw materials by some of the Group's suppliers are usually transacted in United States dollar, the appreciation of Renminbi against United States dollar favors the raw material buy-in price for the Group. Given the appreciation of Renminbi against the United States dollar announced in July 2005, favorable impacts are expected to manifest on the Group's future financial performance in terms of reducing raw material costs. The Group's bank deposits are predominately in Renminbi, Hong Kong dollar and the United States dollar. The Board is of the opinion that the appreciation of Renminbi may not generate any significant effect on the financial position of the Group's operation. However, a foreign exchange loss of approximately RMB2,783,000 (first half of 2007: RMB3,045,000) was reflected in the Group's 2008 Interim Financial Information given that the proceeds from the listing was denominated in Hong Kong dollar while the Group's accounts were calculated in Renminbi. The Group's treasury policy stipulates management of foreign currency exposure to minimize unfavorable financial impact on the Group. The Group will continue to monitor its foreign exchange position. For the six months ended 30 June 2008, the Group did not employ any financial instruments or enter into any contract in order to hedge against its foreign currency exchange risk.

MANAGEMENT DISCUSSION AND ANALYSIS

HUMAN RESOURCES

As at 30 June 2008, the Group's total number of employees was 3,631, representing a 4.9% growth in the number of employees 3,460 as at 31 December 2007. The Group made its best attempt to attract and retain capable personnel as it highly values human resources. Remuneration packages are structured with regard to individual employee's qualification and the prevailing market conditions. The Group also provides sufficient training and continuing professional development opportunities for employees. The Group has set up a remuneration committee to review the remuneration packages of the Executive Directors of the Company and senior management. The committee is composed of two Independent Non-executive Directors and one Non-executive Director. The post of Chairman is held by Mr. Chan Chi On, Derek, an Independent Non-executive Director.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES

As at 30 June 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 granted to Directors as at 30 June 2008 are set out in the heading "Share Option Scheme".

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.

MANAGEMENT DISCUSSION AND ANALYSIS

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 30 June 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 30 June 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 30 June 2008.

MANAGEMENT DISCUSSION AND ANALYSIS

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.

During the six months ended 30 June 2008, there was no the movement of the Company's share options as disclosed in the following table:

				Number of share options			
	Date of grant	Exercisable period	Exercise price per share HK$	Balance as at 1 January 2008	Granted during the period	Lapsed upon resignation	Balance as at 30 June 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

MANAGEMENT DISCUSSION AND ANALYSIS

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

The fair value of the 4,950,000 share options granted determined by a third party was approximately HK$3,560,733 (approximately RMB3,482,397). On 31 August 2007, 450,000 share options granted were lapsed upon resignation of an employee. As such, the fair value of remaining 4,500,000 share options granted was approximately HK$3,237,033 (approximately RMB3,165,818) and HK$784,774 (approximately RMB767,512) of the fair value of the share options granted was recognized for the six months ended 30 June 2008 (first half of 2007: HK$344,364/RMB336,788). The following significant assumptions were used to derive the fair value using the Black-Scholes option pricing model:

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

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

PURCHASES, SALE AND REDEMPTION OF THE SHARES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's shares for the six months ended 30 June 2008. As at 30 June 2008, 800,000,000 shares were in issue.

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

None of the Directors is aware of any information which would reasonably indicate that the Company is not, or was not, in compliance with the Code of Corporate Governance Practices as set out in Appendix 14 to the Listing Rules for the six months ended 30 June 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 for the six months ended 30 June 2008.

MANAGEMENT DISCUSSION AND ANALYSIS

AUDIT COMMITTEE

The Company has established an audit committee in accordance with the requirements of the Code of Corporate Governance Practice. The audit committee comprises three independent non-executive Directors, including Mr. Chang Tso Tung, Stephen, Mr. Chan Chi On, Derek and Mr. Sun Lun. Mr. Chang Tso Tung, Stephen is the chairman of the audit committee. The rights and duties of the audit committee comply with the Model Code provisions. The audit committee is responsible for reviewing and supervising the Group's financial reporting process and internal control system and providing advice and recommendations to the Board.

The 2008 Interim Financial Information have been reviewed by the audit committee and the Company's auditor in accordance with Hong Kong Standards on Review Engagement ("HKSRE") 2410 issued by Hong Kong Institute of Certified Public Accountants.

REMUNERATION COMMITTEE

The Company has established a remuneration committee which comprises two independent non-executive Directors and one non-executive Director, including Mr. Chan Chi On, Derek, Mr. Chang Tso Tung, Stephen and Mr. Lee Kwan Hung, Eddie. Mr. Chan Chi On, Derek is the chairman of the remuneration committee. The remuneration committee has rights and duties consistent with those set out in the provisions of the Model Code. The remuneration committee is principally responsible for formulating the Group's policy and structure for all remuneration of the Directors and senior management and providing advice and recommendations to the Board.

By order of the Board
Song Jiacheng
Chairman

Hong Kong, 22 August 2008