

**GST HOLDINGS LTD:
THERE IS LITTLE REASON FOR THIS COMPANY
TO GO ANYWHERE VERY QUICKLY, AT ANY TIME**

Manufacturing what appears to be relatively simple, low-end devices to detect smoke/heat in buildings, also known as fire alarm systems, is, clearly, one way to earn a goodly crust in the People's Republic of China (PRC), but **TARGET** wonders whether or not PRC Government controls on imports of such low-end products have been responsible, in part, at least, for the success, over the past few years, of GST Holdings Ltd (Code: 416, Main Board, The Stock Exchange of Hongkong Ltd).

GST Holdings went public on the Main Board of The Stock Exchange of Hongkong Ltd on June 20, 2005, when it Offered 200 million, 10-cent Shares at a Premium of \$HK1.62 per Share.

It gathered in, at the end of the day, after all costs had been paid, about \$HK324 million.

The flotation was about 22 times oversubscribed for the 20 million Offered Shares to prospective investors of the Hongkong Special Administrative Region (HKSAR) of the PRC.

The flotation was, therefore, something of a success in terms of valid applications for shares in this Company.

GST Holdings said it needed fresh capital for the following purposes:

1. About \$HK198.10 million to be used for the development and construction of new manufacturing facilities at Beijing, the Capital City of the PRC, proper;
2. About \$HK70.80 million to be used to expand the Company's facilities at Qinhuangdao, the PRC, proper;
3. About \$HK75.50 million to be used to expand the Company's sales network; and,
4. Any leftovers to be used as General Working Capital.

The above wish list was based on the Offer Price, being about \$HK1.875 per Share, but, since the Company did not achieve that figure, Management will have to tailor its cloth to fit its figure.

GST Holdings describes its activities at Page 58 of the Prospectus as follows:

'We are the leading fire alarms systems provider in China and are primarily engaged in the manufacturing and distribution of fire alarm systems and fire alarm network products, as well as related products, including security systems, building automation systems and electronic power meters...

'... we believe we have the largest nationwide sales and distribution network, with 61 offices throughout China and approximately 600 sales and marketing personnel and after-sales technical support staff ...'

Page 184 of the Prospectus indicates that, in fact, 83.48 percent of the Turnover for the 2004 Financial Year, ended December 31, was due to the sales of fire-alarm systems.

This Note to the Accounts is, hereby, reproduced:

Turnover and Revenue

<u>Sales of:</u>	Financial Year, Ended December 31		
	2002	2003	2004
	All Figures Are Denominated In Renminbi'000		
Fire Alarm Systems	273,658	283,940	354,072
Fire Alarm Network Systems	1,766	4,858	8,701
Video Entry Systems	Nil	2,360	14,131
Building Automation Systems	2,448	1,680	4,779
Electronic Power Meters	235	4,144	10,681
Installation Services	19,941	18,657	31,745
TOTALS	298,048	315,639	424,109

It is very apparent that sales of the circular plastic devices, screwed into the ceilings of rooms in order to detect heat/smoke, etc, are the main source of income for GST Holdings.

The Financials

This Company is about 12 years old, having been founded by 11 individuals in 1993 at the Qinhuangdao Economic and Technological Development Zone, Hebei Province, the PRC, proper.

GST Holdings has, always, been in the business of manufacturing fire-alarm systems.

Considering the age of this Company, actually, it has not done very well, as the following table illustrates. It is taken from Page 174 of the Prospectus:

	Financial Year, Ended December 31		
	2002	2003	2004
	All Figures Are Denominated In Renminbi'000 (except where otherwise specified)		
Turnover	298,048	315,639	424,109
Cost of Sales	(122,324)	(143,287)	(209,642)
Gross Profit	175,724	172,352	214,467
Gross Profit Margin*	58.96 percent	54.60 percent	50.57 percent
Other Income**	16,899	27,334	26,649
Distribution Costs	(41,119)	(47,978)	(52,993)
Administrative and General Expenses	(44,720)	(52,683)	(58,492)
Operating Profit	106,784	99,025	129,631
Financing Costs	(2,895)	(3,946)	(3,237)
Share of Results of:			
1. Jointly Controlled Entity	(221)	(299)	92
2. Associates	(282)	(249)	Nil
Profit Before Taxation	103,386	94,531	126,486
Taxation	(26,023)	(14,596)	(3,627)
Profit After Taxation	77,363	79,935	122,859
Minority Interests	(6,583)	(1,152)	(10)
Net Profit Attributable to Shareholders	70,780	78,783	122,849
Net Profit Margin*	23.75 percent	24.96 percent	28.97 percent

* These are **TARGET's** calculations

** Other Income comprised, in the main, Value Added Tax refunds (2004: 21,189,000 renminbi) and PRC Government grants (2004: 2,832,000 renminbi)

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