

**XINAO GAS HOLDINGS LTD :
IT HAS A LARGE POTENTIAL BY THE LOOKS OF THINGS**

This Company needs cash, to be sure, but, at the same time, it appears to have a very bright future, as bright a future, that is, as any company can have when operating, exclusively, in the People's Republic of China (PRC).

The Company is Xinao Gas Holdings Ltd, to be known as Stock Code 8149 on The Growth Enterprise Market of The Stock Exchange of Hongkong Ltd.

Last Wednesday, Xinao Gas Holdings released its Prospectus in the Hongkong Special Administrative Region (HKSAR) of the PRC, a document which Placed 180 million, 10-cent shares (subject to an Over-Allotment Option), at a price of between \$HK1.15 per share and \$HK1.59 per share.

Before going into the particulars of this Company, TARGET noted that the Underwriters, all 6 of them, are charging an Underwriting Commission of 5 percent on the Placing Price of all Placing Shares.

Normally, Underwriting Commissions range between 2.50 percent and 3.50 percent in the HKSAR.

The Underwriting Commission, Listing Fees to be paid to The Stock Exchange of Hongkong Ltd, Stock Exchange transaction levy, legal costs, printing costs, and other professional fees, in addition to other costs, relating to the Placings, will cost the Company about \$HK32 million.

At the minimum Placing Price of \$HK1.15 per share, therefore, the Company will receive \$HK175 million, with about 15.46 percent of all monies raised, or, put another way, 15.46 cents on every dollar, going to all those parties, putting their hands in the pockets of this PRC, piped gas distribution Company, whose operations are restricted (at this time) to the Beijing Area.

The Underwriters are:

CLSA Ltd
BNP Paribas Peregrine Securities Ltd
DBS Asia Capital Ltd
Kingsway SW Securities Ltd
South China Securities Ltd
Tai Fook Securities Company Ltd

Xinao Gas Holdings describes itself as being '*one of the first, non (PRC) state-owned piped gas distributors in the PRC. The principal business of the Group is the investment in, and the operation and management of, gas pipeline infrastructure and the sale and distribution of piped gas in the PRC. Its business activities also consist of the sale of gas appliances and equipment and the provision of repair, maintenance and other services in connection with gas supply.*' (Page 12 of the Prospectus)

The history of the Company goes back to 1985 when Mr Wang Yu Suo, a PRC National, who was, then, just 20 years old, started to operate an LPG (Liquefied Petroleum Gas) processing station in Bazhou, Herbei Province, the PRC, Herbei, being located in the Beijing area, Beijing, being the Capital City of the PRC.

In 1993, just 8 years ago, he and some of his associates, realising that natural gas was one of the cheapest sources of fuel in the PRC, formed what is, today, Xinao Gas Holdings Ltd.

Today, at the age of 36 years, Chairman Wang Yu Suo controls the lives of about 500 workers, all but 2 workers, domiciled in the PRC.

His Board of Directors comprises, also, relatively young associates, with the oldest member, being 43 years old, while the youngest is 32 years old.

The success of this Company is admirable, in TARGET's opinion, since it would appear that that success, unlike some other companies' successes, would not have been conditional on backhanders, offered to minions of the political regime of the PRC Government's hierarchy.

The following are the Trading Results of Xinao Gas Holdings for the past 3 Financial Years, ended December 31, 2000:

	Financial Year ended December 31		
	1998	1999	2000
	All Figures are Denominated in Renminbi '000		
Turnover:			
Connection Fees	31,914	38,508	101,282
Gas Usage Charges	9,045	14,342	20,517
Sales of Gas Appliances	<u>123</u>	<u>73</u>	<u>471</u>
TOTALS	<u>41,109</u>	<u>52,923</u>	<u>122,270</u>
Cost of Sales	(18,327)	(23,492)	(58,362)
Gross Profit	22,782	29,431	63,908
Other Revenues	324	793	945
Tax Refund	Nil	2,656	5,180
Selling Expenses	(222)	(273)	(2,041)
Administrative Expenses	(3,449)	(3,690)	(9,153)
Other Operating Expenses	(656)	(45)	(357)
Profit From Operations	18,779	28,872	58,482
Interest Expenses	(2,957)	(3,300)	(8,112)
Profit Before Taxation	15,822	25,572	50,370
Taxation	(2,373)	(3,836)	(6,976)
Profit Before Minority Interests	13,449	21,736	43,394
Minority Interests	(4,117)	(6,653)	(6,018)
Net Profit Attributable to Shareholders	9,332	15,083	37,376
Dividends	Nil	Nil	30,529

It is noted that the bulk of the 2000 Financial Year's Turnover – 82.83 percent, in fact – was in regard to connection fees, which are, in most cases, a one-time fee.

These are 'revenues principally ... receivable on the initial connection of gas and gas usage charges, and to a lesser extent, revenues ... derived from the sale of gas appliances and the provision of repair, maintenance and other services ...'. (Page 12)

Connection fees require the approval of the local State Price Bureau; any increases in such fees have to be submitted to the relevant Authority for approval.

Also, there is a limit on charges that the Company may impose on customers in respect of gas usage; any increase requires the approval of the State Price Bureau.

The following statistics are taken from Page 55 of the Prospectus and indicate the growth in the Company's business in terms of customers:

	Financial Year ended December 31
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	1998	1999	2000
Accumulated Contracted Number of Gas Supply Locations:			
Residential Households	22,962	32,155	78,326
Commercial and Industrial Sites	<u>136</u>	<u>165</u>	<u>258</u>
TOTALS	<u>23,098</u>	<u>32,320</u>	<u>78,584</u>
Accumulated Number of Gas Connections Made:			
Residential Households	22,823	30,607	66,253
Commercial and Industrial Sites	<u>131</u>	<u>165</u>	<u>242</u>
TOTALS	<u>22,954</u>	<u>30,772</u>	<u>66,495</u>

The Reasons For The Float

According to the Prospectus at Page 126, the estimated net proceeds from this cash-raising exercise, amounting to about \$HK176 million (which is in variance with the previously stated estimated net proceeds of about \$HK175: \$HK32 million, being the estimated costs incurred in the preparation of the Company to be listed on The Growth Enterprise Market plus the 5 percent, Underwriting Commission, will be used as follows:

1. \$HK111 million for the construction of pipelines;
2. \$HK31 million for the construction of processing stations;
3. \$HK31 million to purchase certain group companies, for which Xinao Gas Holdings has, already, made commitments; and,
4. \$HK3 million to manufacture stored value cards for gas metres.

As at February 18, 2001, Xinao Gas Holdings had outstanding borrowings ... [CLICK TO ORDER FULL ARTICLE](#)

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