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PANVA GAS HOLDINGS LTD : IT LOOKS TO BE A WINNER

The near-term prospects of Panva Gas Holdings Ltd appear to be very bright if its growth rate, over the past 3 Financial Years, is anything on which to hang one's analyst's hat.

Panva Gas Holdings is the latest company to seek a listing on The GEM, The Growth Enterprise Market of The Stock Exchange of Hongkong Ltd.

This is the second company of its kind to select the GEM as its choice of a listing, changing its status from that of a privately held company to one that is partly in the hands of the public.

It was only last Wednesday that Xinao Gas Holdings Ltd withdrew from its proposed listing on The GEM, citing as the reason *'adverse market conditions'*. (please see TARGET Intelligence Report of last Wednesday, Volume III, Number 68)

TARGET considers this privately owned, piped natural gas distributor to be a winner, near term and intermediate term, but it had to withdraw from its listing on The GEM when it could not reach an agreement with its underwriters in regard to a determination on the Placing Price of its shares.

Fundamentally, Xinao Gas Holdings is sound, but Panva Gas Holdings appears to have demonstrated a much more significant increase in its growth of sales and profits since 1998, much greater than that of Xinao Gas Holdings.

Unlike Xinao Gas Holdings, Panva Gas Holdings (Code: 8132) is a distributor of LPG (Liquified Petroleum Gas), not a distributor of natural gas.

And, unlike Xinao Gas Holdings, which concentrates its efforts in and around the Beijing Area of the People's Republic of China (PRC), Panva Gas Holdings concentrates its efforts in Hunan, Anhui and the Jiangsu Provinces of the PRC.

This is an area, which is about 1,000 miles south of the area that Xinao Gas Holdings operates.

Lastly, unlike Xinao Gas Holdings, where the Underwriters were wanting to charge a 5- percent commission on the Placing Price of all Placing Shares, the Underwriters of Panva Gas Holdings are charging a commission of 3 percent, a full, 40 percentile-point reduction, compared with the Underwriters' proposed whack at Xinao Gas Holdings.

Panva Gas Holdings, similar to Xinao Gas Holdings, is Placing its shares, all 95 million, 10-cent shares, at a Premium of 47 cents per share.

The net proceeds of the Placings, amounting to about $HK42 million, are earmarked for the following purposes, according to the Prospectus at Page 120:

1. $HK16 million to establish a joint-venture company at Changsha, the Capital of Hunan Province of the PRC;

2. $HK18 million to establish a joint-venture company in Kunming, the Capital of Yunnan Province of the PRC;

3. $HK4 million to be used for marketing purposes; and,

4. $HK4 million to be tipped into the General Working Capital Account.

As at the 2000 Financial Year's Balance Sheet Date, December 31, 2000, this Company appeared to be especially strong with about $HK154.84 million in bank balances and cash.

Over the past 3 Financial Years, it appears to have done extraordinarily well as the following table, taking directly from the Prospectus, at Page 138, indicates:

	Financial Year ended December 31		
	1998	1999	2000
	All Figures are Denominated in $HK'000		
Turnover	281,547	507,876	1,059,729
Cost of Sales	(259,536)	(491,076)	(1,011,052)
Gross Profit	22,011	16,800	48,677
Other Revenue	121	859	487
Distribution Expenses	(4,836)	(10,140)	(19,335)
Administrative Expenses	(15,651)	(20,481)	(25,796)
Other Operating Expenses	(224)	(247)	(661)
Profit/(Loss) from Operations	1,421	(13,209)	3,372
Financing Costs	(2,317)	(339)	(319)
Investment Income	434	510	3,430
Profit/(Loss) from Ordinary Activities before Taxation	(462)	(13,038)	6,483
Taxation	Nil	Nil	(342)
Profit/(Loss) before Minority Interests	(462)	(13,038)	6,141
Minority Interests	(1,887)	3,252	(5,313)
Net Profit/(Loss) Attributable to Shareholders	(2,349)	(9,786)	828

It is important to note that the Turnover comprises only sales of LPG and sales of LPG household appliances: The bread and butter of the Company.

Further, it is noted that the Profits from Operations were hamstrung, to a very great extent, by the 220-percent increase in staff costs (excluding Directors' Emoluments), during these 3 past Financial Years, plus accelerated Depreciation Charges, during that period.

Note d at Page 140 spells it out:

	Financial Year ended December 31		
	1998	1999	2000
	All Figures are Denominated in $HK'000		
Profit/(Loss) from operations has been arrived at after charging			
Auditors' Remuneration	310	557	582
Depreciation	1,887	7,822	11,451
Operating Lease Rentals in Respect of Land and Buildings	1,084	1,363	2,164
Provision for Bad and Doubtful Debts	468	7	149
Staff Costs:			
Directors' Emoluments	Nil	655	1,523
Staff Costs, Excluding Directors' Emoluments	5,555	8,998	17,809
Retirement Benefit Scheme Contributions	278	653	1,084

On a more positive note, it is clear that this Company has not been hurt by bank interest charges, over the past 3 Financial Years, since such charges appear to have been negligible.

(There is a very good reason for this, as subscribers will learn, further on in this analysis)

According to Page 99 of the Prospectus, as at the close of business on February 28, 2001, Panva Gas Holdings had outstanding bank borrowings of about $HK2.70 million, secured by fixed assets of the Group.

But it did owe about $HK33.60 million to minority shareholders, and another $HK163.80 million was owed to its intermediate holding company, Sinolink Worldwide Holdings Ltd (Code: 1168, Main Board, The Stock Exchange of Hongkong Ltd).
The loans from minority shareholders and from Sinolink Worldwide were unsecured and non-interest bearing ...