

**ZHENGZHOU GAS COMPANY LTD:
LOVE ME, LOVE MY GAS !**

One, really, has to be a Sinophile and to be oblivious to the vagaries and caprices of the Government of the People's Republic of China (PRC) in order to feel comfortable in making an investment in Zhengzhou Gas Company Ltd, the October 22, 2002 offering on The Growth Enterprise Market (The GEM) of The Stock Exchange of Hongkong Ltd.

Because the financials of this Company, really, do not make too much sense, from a Westerner's (a gweilo's) point of view.

Zhengzhou Gas is controlled, completely, by the PRC Government, and, as its name implies, it is in the business of supplying piped natural gas and Liquefied Petroleum Gas (LPG) in Zhengzhou, the Capital City of the Henan Province of the PRC.

According to Encyclopaedia Britannica, the population of Zhengzhou is about 1.42 million people, with the Province of Henan, having a population of about 86 million people.

The Prospectus of Zhengzhou Gas, at Page 64, states, however, that the population of Zhengzhou is about 6.28 million people, of which number, 2.19 million people live in the urban areas and about 4.09 million people live in the suburban areas.

TARGET does not wish to take issue with the fact that an official PRC Government publication (because that is what TARGET assumes is the correct nomenclature of the Company's prospectus: An official PRC publication) makes one claim as to the human population of Zhengzhou while Encyclopaedia Britannica makes another claim, for the same time period.

What would be the value in saying that somebody is telling a fib?

However, one should believe the Prospectus of Zhengzhou Gas, regardless, because (a) Zhengzhou Gas is controlled by the PRC Government, after all, (b) the PRC Government should know better about the population of the PRC than Encyclopaedia Britannica, which is a private, profit-making enterprise, operated by horrible capitalists, and (c) prospectuses never tell lies, in any event, do they?

Regardless of exact number of the human population of Zhengzhou, this Company, which has a monopoly in the supply of natural gas to the city, by virtue of its mandate, handed down by the Heavenly PRC Government, has a limited number of potential customers, limited either to one million people-odd or 6.28 million people-odd (take your pick).

According to Page 75 of the Company's Prospectus, the number of residential and commercial customers was:

Table One

		Financial Year ended December 31		Three Months to March 31
		2000	2001	2002
Number of Residential Customers	Natural Gas	351,559	379,145	390,616
	LPG	28,954	34,068	34,756

Number of Commercial Customers	Natural Gas	472	561	583
	LPG	241	298	302
Number of Industrial Customers	Natural Gas	4	5	6
	LPG	9	9	9

The reason for the lack of growth in industrial customers is due to the fact that there is precious little in the way of industry in Zhengzhou, unless the Government of the PRC wishes to take issue with Encyclopaedia Britannica on that matter, too.

The above table would appear to indicate that this Company is not a very exciting prospect, either now, or any time in the future.

The Flotation

Zhengzhou Gas (GEM Code: 8099) went public on The GEM by Placing 550.66 million, renminbi 0.10 Shares at a Price of 25 cents (Hongkong) per Share.

The Net Proceeds of this cash-raising (ad)venture, amounting to about \$HK109 million, is to be used as follows:

1. \$HK25 million for the construction of a natural gas plant;
2. \$HK43.50 million for the construction and renovation of urban pipeline networks in Zhengzhou;
3. \$HK2 million for sales and marketing programmes;
4. \$HK12 million for upgrading *'the overall management efficiency of the pipeline network cathode protection project'*;
5. \$HK17.50 million to develop a vehicular gas business; and,
6. \$HK9 million to be used as General Working Capital.

It is noted that not a penny of the net proceeds is earmarked to reduce any of the Company's debts, which stood at 32.68 million renminbi (about \$HK31.37 million), as at August 31, 2002. (Page 126 of the Prospectus)

In respect of the section, *'Borrowings'*, the Prospectus states:

'As at 31 August 2002, the Group had a total amount of RMB32,680,000 due to the holding company (which is a PRC State-owned enterprise). The amount due to the holding company was unsecured and interest free. On 30 September 2002, the Company entered into a repayment agreement with its holding company, Zhengzhou Gas Group Co. Ltd. (the PRC State-owned company). Pursuant to the repayment agreement, the repayment term of an amount of RMB32,433,000 due to the holding company was revised from repayable on demand to wholly repayable after 1 January 2004 subject to (1) the Group has positive cash flow and retained earnings and such positive cash flow is sufficient to fund the repayment of the amount due and all working capital needs of the Group for the financial year in which such repayment is required to be made; and (2) each of the then independent non-executive directors confirms that such repayment of any of the outstanding amount will not adversely affect the Group's operations or the implementation of its business plans during the period from 1 January 2004 to 31 December 2004.'

All that TARGET can comment, with regard to the above, is that it is nice to be an organ of the PRC State.

The deduction that TARGET has reached in respect of the above is that, come January 1, 2004, it is unlikely that Zhengzhou Gas will be repaying its debt to the holding company because, in TARGET's opinion, there will not

be sufficient cash in the kitty to accomplish its business plans – even if it can muster ... [CLICK TO ORDER FULL ARTICLE](#)

While TARGET makes every attempt to ensure accuracy of all data published, TARGET cannot be held responsible for any errors and/or omissions.

If readers feel that they would like to voice their opinions about that which they have read in TARGET, please feel free to e-mail your views to editor@targetnewspapers.com or targnews@hkstar.com. TARGET does not guarantee to publish readers' views, but reserves the right so to do subject to the laws of libel.

 [Site Meter](#)