

Analyst: Kelvin Li

## **Main Board Listing – Research**

中國黃金國際資源有限公司

China Gold International Resources Corp. Ltd. [Stock Code: 02099]
**Sole Global Coordinator and Sole Sponsor** : Citigroup

**Joint Bookrunners and Joint Lead Managers** : Citigroup BOCI

**Sector** : Materials

**Business** : Production of gold

<p><b>Total share offer:</b> <u>53,660,000</u> shares (13.55% of the enlarged share capital)</p> <p><b>Public Offer:</b> 5,366,000 shares (10%)</p> <p><b>Placing:</b> 48,294,000 shares (90%)</p> <p><b>Greenshoe:</b> 8,049,000 shares</p>	<p><b><u>Business of China Gold Int'l Resources</u></b></p> <p>The Group, a Toronto Stock Exchange-listed company, is the overseas flagship of China National Gold – the largest gold producer in China in terms of gold output in 2009. The Group is mainly engaged in exploration, development, mining and processing of gold and other non-ferrous metals.</p> <p>The Group currently owns (with a 96.5% interest) and operates the CSH Mine (長山壕礦) in Inner Mongolia, which is one of the largest gold mines in China in terms of mineral resources under the JORC code. Besides, the Group will also acquire and fully own the Jiama Mine (甲瑪礦區) in Tibet upon the completion of the IPO and the acquisition of Skyland, and will become one of the largest copper-polymetallic mining operator in China in terms of ore production rate, total mine production and mineral resources under the JORC code.</p> <p>The CSH Mine is an open-pit mine and has a total measured and indicated gold content of 4.858 million tonnes. The Group holds a mining permit covering a total area of 10.1 sq km, which will expire by end of Aug 2013. The CSH Mine has an initial annual ore output capacity of 6.6 million tonnes and is expected to increase to 10.65 million tonnes from 2011 onwards.</p> <p>The Group plans to acquire the Jiama Mine after the Listing. The Jiama Mine is currently owned and operated by Skyland, which was 51% owned by the Group's controlling shareholder and 49% by Rapid Result (owned by a group of independent third parties). The Jiama Mine is a 3.6 km-long copper-lead-zinc mineralization zone located at 4,100m-5,300m above sea level.</p>
<p><b>Price:</b> HK\$37.21 – HK\$44.96 per share</p> <p><b>Market Cap:</b> HK\$14.7 billion – HK\$17.8 billion</p> <p><b>Pro-forma fully diluted FY2010E P/E:</b> 49.0x-59.2x</p> <p><b>Company guidance of FY2010E net profit:</b> not less than US\$23.4 million</p> <p><b>Adjusted NTA per share:</b> US\$2.66–HK\$2.79</p> <p><b>Staffing:</b> 365 (as of 10<sup>th</sup> November 2010)</p>	
<p><b>HK Public Offer period:</b> 17<sup>th</sup> November 2010 - 22<sup>nd</sup> November 2010 noon</p> <p><b>Receiving bank:</b> Bank of China (Hong Kong) HSBC</p> <p><b>Share registrar:</b> Computershare Hong Kong Investor Services Limited</p> <p><b>Listing date:</b> 1<sup>st</sup> December 2010</p>	

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### Shareholders after Listing (Assuming the over-allotment option is not exercised)

China National Gold (PRC)	38.98%
Rapid Result (BVI) – an investment holding company owned by various individuals and a family trust, all of whom are independent third parties. Rapid Result (BVI) was former shareholder of Skyland, which owned the Jiama Mine.	21.07%
Public shareholders (including both the HK and the Toronto Stock Exchange-listed shares)	39.95%
	<u>100.00%</u>

### Use of Proceeds

Net proceeds from the offer are estimated to be HK\$2,105.4 million (based on an offer price of HK\$41.09 and assuming the over-allotment option is not exercised)

	HK\$ million
To provide part of the funds required for the production expansion of the Jiama Mine.	631.6
For potential acquisition of gold and non-ferrous mineral resources outside China by focusing on mines at operating stage and advanced mining or exploration projects with high growth prospect.	631.6
For exploration activities to upgrade and expand the resource and reserve of the Jiama Mine and the CSH Mine.	315.8
To repay certain debt obligations to its parent company.	421.1
For general working capital.	105.3

### Financial Highlights

	Year ended 31 <sup>st</sup> Dec			6 months ended	
	2007	2008	2009	30 <sup>th</sup> Jun 2009	30 <sup>th</sup> Jun 2010
	US\$ million	US\$ million	US\$ million	US\$ million	US\$ million
Revenue	-	29.4	81.0	26.0	37.7
Gross profit	-	8.9	24.9	7.6	19.0
Operating profit/(loss)	(11.6)	(2.6)	19.2	5.1	16.8
<b>Profit/(loss) attributable to shareholders</b>	<b>(30.4)</b>	<b>14.6</b>	<b>(9.3)</b>	<b>(1.7)</b>	<b>0.5</b>
Gross profit margin	N/A	30.2%	30.7%	29.1%	50.5%
Operating profit/(loss) margin	N/A	(8.7%)	23.7%	19.7%	44.7%
Net profit/(loss) margin	N/A	49.6%	(11.5%)	(6.4%)	1.2%
	<b>31/12/2007</b>	<b>31/12/2008</b>	<b>31/12/2009</b>	<b>30/6/2009</b>	<b>30/6/2010</b>
Net debt to Shareholders' Equity	175.9%	113.4%	187.2%	N/A	125.1%

### Peer valuation comparison

	China Gold International Resources (02099)		Zijin Mining (02899)		Zhaojin Mining (01818)		Real Gold Mining (00246)	
	FY2009	FY2010E	FY2009	FY2010E	FY2009	FY2010E	FY2009	FY2010E
P/E ratio	Loss	49.0x-59.2x	22.0x	16.3x	39.9x	26.0x	14.7x	12.0x
Market cap. (HK\$ billion)	14.7 – 17.8		27.8 (H-share mkt cap)		11.0		12.2	

Sources: Reuters

**Strengths/Opportunities**

- ✓ Gold prices are expected to continue its bull run, amid persistent weakness in the US dollar on the Federal Reserve's ultra loose monetary policy.
- ✓ Thanks to a better gold recovery rate on capacity upgrade, the Independent Technical Expert expects the Group's gold output to grow to 146,570 oz in 2011 from 116,000 oz in 2010, despite a decrease in ore processing volume to 10.65 million tonnes in 2011 from 12.0 million tonnes in 2010.
- ✓ In addition to mining operations on the Mainland, the Group said it would also look for overseas business opportunities in the future. For instance, the Group has set up a joint venture in Dec 2009 with a Mongolia company, Monnis International, to look for gold resources opportunities in Mongolia.
- ✓ According to the Independent Technical Expert, better ore grade is expected along with greater depth in the CSH Mine. The Group would see great resources potential from exploration below the current lower elevation limit. However, the Group still needs to apply for a confirmation from the relevant government authority to allow it to carry out exploration work below this lower elevation limit.
- ✓ The Group has sealed cornerstone placing agreements with a number of institutional investors. Each investor will be subject to a six-month lock-up restriction. Subscription details are as follows:-

<b>Name of Investors</b>	<b>Subscription (US\$ million)</b>
• Chow Tai Fok (owned by Dato' Dr Cheng Yu-Tung)	15
• Mr. Wang Hung, Roger (chairman of Golden Eagle Retail Group (03308))	10
• ICBC International Strategic Investment (wholly owned by ICBC (01398))	10
• Jichuan Group (HK) Resources (69.57% owned by People's Government of Gansu province, 16.51% by China Development Bank, 5.94% by Baosteel, 5.94% by Taiyuan Iron and Steel, 2.04% by Gansu Province Industrial and Transportation Investment.)	10
• Dr. Lo Ka Shui	10
• Shau Kee Financial Enterprises (controlled by Dr. Lee Shau Lee)	10

**Weaknesses/Threats**

- × The Group's CSH Mine is of inferior reserve quality when compared with other HK-listed gold producers. Gold grade of the CSH Mine stood at only 0.67 gram per tonne, much lower than the operating gold mines of Zijin Mining (02899) and other miners with gold grades above 2.5 g/t, which would lead to a higher operating cost to the Group.
- × The Group plans to acquire the Jiama Mine simultaneously upon completing of the Listing. The Jiama Mine is located about 68 linear km northeast of Lhasa, Tibet and 4,100m to 5,300m above sea level. Its geographical location may make mining operation and transportation difficult.
- × The Group sells all its principal product – gold dore bars – to its parent company for further processing. In such case, the Group's risk of customer concentration is high.

**Recommendation:            Unattractive**

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