

Analyst: Kelvin Li

Main Board H-share Listing – Research

招金礦業股份有限公司

Zhaojin Mining Industry Company Limited [Stock Code: 1818]

Sole Global Coordinator : UBS AG
Joint Bookrunners, Joint Lead Managers and Joint Sponsors UBS AG Cazenove Asia Limited

Sector : Materials
Business : Integrated production of gold

<p>Total share offer: <u>172,800,000</u> H shares (24.6% of the enlarged share capital)</p> <p>Public Offer: 17,280,000 H shares (10%)</p> <p>Placing: 155,520,000 H shares (90%)</p> <p>Greenshoe: 25,915,000 H shares</p>	<p><u>Business of Zhaojin Mining</u></p> <p>Zhaojin Mining is one of the leading gold producers in the Mainland, with exploration, mining, ore processing and smelting operations based in the Zhaoyuan district of Shandong Province.</p> <p>Zhaojin Mining owns 5 operating mines, namely Jinchiling Gold Mine, Hedong Gold Mine, Xiadian Gold Mine and Dayingezhuang Gold Mine, each of which is wholly owned by the Company, and Jintingling Gold Mine, of which the Company holds a 75% stake. Zhaojin Mining now owns 12 mining permits covering a mining area of 30.1 sq km and 30 exploration permits covering an exploration area of 395.5 sq km.</p> <p>Zhaojin Mining has a smelting plant at Jinchiling Gold Mine, which processes gold concentrates from its own as well as its parent company, Zhaojin Group, and other Mainland mining companies. The Group also produces by-products like silver and other metals, which accounted for less than 5% of total revenue in 2005.</p>
<p>Price: HK\$9.80 – HK\$12.68 per H share</p> <p>H-share Market Cap: HK\$1,862.8 million – HK\$2,410.2 million</p> <p>Pro-forma FY2006E P/E: 26x – 33x</p> <p>Adjusted NTA per H share: HK\$2.6-HK\$3.3</p> <p>Staffing: 4,325 (as of 30th June 2006)</p>	
<p>HK Public Offer period: 24th November 2006 – 29th November 2006 noon</p> <p>Receiving bank: Bank of China (Hong Kong) ICBC (Asia)</p> <p>Share registrar: Computershare Hong Kong Investor Services Limited.</p> <p>Listing date: 8th December 2006</p>	

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

Zhaojin Group	39.0%
Shanghai Fosun	15.1%
Shanghai Yuyuan (18.2% owned by Shanghai Fosun)	15.1%
Laomiao Gold (95% owned by Shanghai Yuyuan)	0.8%
Guangxin Investments	3.0%
Public shareholders (including a 2.5% stake owned by NCCF Council)	27.0%
	<u>100.0%</u>

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**Use of Proceeds**

Net proceeds from the offer are estimated to be HK\$1.82 billion.

(Assuming the over-allotment option is not exercised, and at an issue price of HK\$11.24 each, being the mid-point of the indicative price range)

	HK\$ million
For improving and expanding Dayingezhuang Gold Mine and Xiadian Gold Mine and enhancing existing ore processing capacity.	500
For expanding exploration activities.	250
For acquisition of operating gold mines.	500
For implementation of catalytic oxidation acid leaching (COAL) in the gold mines that the Company acquires in the future.	150
For acquisition of advanced exploration projects.	250
For repayment of existing bank loans	170

Financial Highlights

	Year ended 31 st December			6 months ended	
	2003	2004	2005	30 th June 2005	30 th June 2006
	RMB '000	RMB '000	RMB '000	RMB '000	RMB '000
Revenue	383,970	428,084	867,687	403,642	528,712
Gross profit	146,049	190,869	439,387	184,475	316,869
Profit before tax	74,717	100,027	239,976	92,047	223,392
Attributable profit	45,462	165,565	162,891	63,278	147,186
EPS	RMB0.16	RMB0.36	RMB0.31	RMB0.12	RMB0.28
Gross margin	38.04%	44.59%	50.64%	45.70%	59.93%
Net profit margin	11.84%	38.68%	18.77%	15.68%	27.84%
	31/12/2003	31/12/2004	31/12/2005	30/06/2005	30/06/2006
Net debt to SH Equity	109%	Net cash	92%	108%	76%

Strengths/Opportunities

- ✓ Zhaojin Mining acquired Dayingezhuang Gold Mine in 2005, which is one of the largest underground gold mines in the Mainland, with total gold reserve of more than 72,000 kg. The mine should provide the Group with strong growth momentum in coming years. According to Zhaojin Mining, gold production volume is expected to grow 6.9% in 2006 and 12.4% in 2007.
- ✓ Bullion sales accounted for more than 95% of Zhaojin Mining's revenue during the first half, compared with Zijin Mining (2899)'s 80% and Lingbao Gold (3330)'s 70%. Zhaojin Mining should provide investors with a more focus and leveraged play to ride on the surging gold prices.

Weaknesses/Threats

- × Owing to the underground nature of the Group's gold mines, Zhaojin Mining's operating cash costs are higher when compared with Zijin Mining.
- × Selling prices of Zhaojin Mining's gold products and so its gross margin are highly correlated to international bullion prices. Any sharp decline in gold prices would have an adverse impact on the Company's earnings.
- × Pricing at the top end of the indicative price range would lead to a valuation of 33x FY06E P/E, which would be higher than those of Zijin Mining and Lingbao Gold.

Recommendation: Neutral

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