

Analyst: Kelvin Li

Main Board Listing – Research

澳華黃金有限公司

Sino Gold Mining Limited. [Stock Code: 1862]
**Sole Global Coordinator, Bookrunner,
Sponsor and Lead Manager**

: Morgan Stanley

Sector : Materials

Business : Gold mining

Total share offer: <u>21,038,000</u> shares (11.67% of the enlarged share capital) Public Offer: 2,104,000 shares (10%) Placing: 18,934,800 shares (90%) Greenshoe: 3,155,800 shares Price: No more than HK\$55.0 per share Market Cap: HK\$9,919 million Pro-forma FY06 PER: N/A Adjusted NTA per share: A\$0.97 or HK\$6.00 Staffing: 453 (as of 31 st December 2006)	<u>Business of Sino Gold</u> Headquartered in Sydney, Sino Gold ("the Company") is a public company incorporated in New South Wales of Australia and listed on the Australian Stock Exchange (ASX). The Company now seeks secondary listing on HKEx. Sino Gold mainly engages in the exploration, evaluation, development and operation of gold mines in China through cooperative joint venture companies, each of which is formed by a wholly owned subsidiary of the Company and a local PRC partner. Sino Gold is now focusing on the development of the Jinfeng Project via the Jinfeng cooperative joint venture. It has an 82% stake in the Jinfeng project, which is located in Guizhou province and expected to commence commercial production in Q1 2007. Sino Gold anticipated that the Jinfeng project would become one of the largest gold mines in the Mainland once in production. The Jinfeng project is expected to have an initial gold production of 180,000 oz per annum and to have a long life of 13.7 years.
HK Public Offer period: 5 th March 2007 – 8 th March 2007 noon Receiving bank: BOC (Hong Kong) Share registrar: Computershare Hong Kong Investor Services Limited Listing date: 16 th March 2007	

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

Gold Fields Australasia	15.4%
Black Rock, Inc	7.4%
JP Morgan Chase & Co	7.1%
Commonwealth Bank of Australia and subsidiaries	6.2%
Sino Mining International Limited	5.6%
Other investors, holding no more than 5% interest in the Company	46.6%
HK Public investors	11.7%
	<u>100.0%</u>

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Use of Proceeds

Net proceeds from the offer are estimated to be HK\$961 million (Assuming an offer price of HK\$55.0 and the over-allotment option is not exercised)

	HK\$ million
To fund the pre-production capital cost of the underground development of the Jinfeng Project	156
To fund the expansion of the gold processing facilities of the Jinfeng Project	141
To fund the feasibility studies for the White Mountain Project	39
For project development, acquisitions and exploration activities	554
For re-financing of existing debt facilities and provision of working capital	71

Financial Highlights

(A\$ '000)	2004	Year ended 31 st Dec 2005	2006
Revenue	20,044.0	11,024.0	8,695.0
Gross profit /(loss)	(4,411.0)	(5,618.0)	892.0
Pre-tax profit /(loss)	(19,338.0)	(26,289.0)	(20,054.0)
Attributable profit /(loss) to the Company's shareholders	(19,338.0)	(26,289.0)	(20,054.0)
Sale quantity of gold (oz)	42,892	20,577	11,935
Average selling price (US\$/oz)	344	410	549
Net debt to shareholders' equity ratio	Net cash	59.7%	393.9%

Strengths/Opportunities

- ✓ Gold is used extensively for the making of jewellery. Thanks to the fast-growing economy and rising standard of living on the Mainland, the demand for gold in the PRC is expected to keep growing fast in the coming years.

Weaknesses/Threats

- × Sino Gold's sale quantity of gold fell sharply in 2005 and 2006, as resources in the Jianchaling Gold Mine continued to deplete. Rising bullion prices helped partly offset the impact of the drop in sale volume, but the fall in the Company's revenue remained severe. As such, Sino Gold reported losses during the 2004-2006 period.
- × Sino Gold now has 8 exploration rights of mines in Guizhou province, Jilin province and Shandong Province. However, the Company has only obtained one mining right for the Jinfeng project in Guizhou province, implying business concentration and so higher operating risk.
- × Sino Gold's management said the Jinfeng project would be the Company's flagship project, which should help revive its overall profitability and provide strong cash flows in the near term. However, one should note that the project is still in the late stages of construction and has not yet commenced commercial operations. The Company's profitability would be adversely affected if there were any delay of commercial production of the Jinfeng project.
- × The Australia-listed shares of Sino Gold are trading at 40x FY2007E P/E, being more expensive when compared with Zijin Mining (HKEx: 2899)'s 21x FY07E P/E and Lingbao Gold (HKEx: 3330)'s 15x forward P/E multiple.

Recommendation: Caveat Emptor

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