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## Main Board H-share Listing – Research

新疆新鑫礦業股份有限公司

Xinjiang Xinxin Mining Industry Co., Ltd. [Stock Code: 3833]

**Sole Global Coordinator, Sole Bookrunner,** : BOC International  
**Sole Sponsor and Sole Lead Manager**

**Sector** : Materials

**Business** : Mining, ore processing, smelting and refining of non-ferrous metals

|   |   |
|---|---|
| <b>Total share offer:</b> <u>600,000,000</u> H shares<br>(28.3% of the enlarged share capital)<br><b>Public Offer:</b> 60,000,000 H shares (10%)<br><b>Placing:</b> 540,000,000 H shares (90%)<br><b>Greenshoe:</b> 90,000,000 H shares   | <b><u>Business of Xinxin Mining</u></b><br>Xinxin Mining is an integrated mining company based in Xinjiang, mainly engaged in mining, ore processing, smelting and refining of nickel, copper and other non-ferrous metals including cobalt and precious metals (gold, silver, platinum and palladium). In terms of production volume, the Group was the 2 <sup>nd</sup> largest integrated producer of nickel cathode in 2006, accounted for 3.2% of the PRC's total output.<br>The Group's operating site is located in Xinjiang, including the Kalatongke Mine and the Fukang Refinery. The Kalatongke Mine (喀拉通克礦) includes a concentrator and a smelter, while the Fukang Refinery (阜康冶煉廠) makes use of raw materials produced from the Kalatongke Mine and refines into nickel cathode and other products such as copper cathode.<br>Currently, the Group has 4 exploration rights covering an aggregate area of 159.91 sq km and 1 mining permit valid for 30 years covering an aggregate area of 7.887 sq km. |
| <b>Price:</b> HK\$4.80 – HK\$6.50 per H share<br><b>Market Cap:</b> HK\$10.18 billion–HK\$13.78 billion<br><b>Pro forma FY2006 PER:</b> 22.9x to 31.0x<br><b>Adjusted NTA per H share:</b> HK\$1.73 - HK\$2.21<br><b>Staffing:</b> 2,210 (as of 31 <sup>st</sup> March 2007)  |   |
| <b>HK Public Offer period:</b><br>27 <sup>th</sup> September 2007 – 3 <sup>rd</sup> October 2007 noon<br><b>Receiving bank:</b> Bank of East Asia,<br>Bank of China (Hong Kong)<br><b>Share registrar:</b> Computershare Hong Kong<br>Investor Services Limited<br><b>Listing date:</b> 12 <sup>th</sup> October 2007 |   |

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

|   |                |
|---|----------------|
| Xinjiang SASAC, via Xinjiang Non-ferrous Metal Industry (Group) Ltd.                  | 42.18%         |
| Shanghai Yilian – owned by Mr. Zhou Chuanyou, one of Xinxin's non-executive directors | 13.34%         |
| Zhongjin Investment – 98.83% owned by Mr. Zhou Chuanyou                               | 9.34%          |
| Xiamen Zijin – 100% owned by Zijin Mining (HKEx: 2899)                                | 2.67%          |
| Xinjiang Xinying – 90% owned by Zhu Fangying and 10% by Jiang Jinlan                  | 1.04%          |
| Shaanxi Honghao – 30% owned by Zhang Haosen and 70% by Zuo Yufen                      | 0.30%          |
| NSSF (National Council for Social Security Fund of the PRC)                           | 2.83%          |
| Corporate investors*  | 5.20%          |
| Public Investors  | 23.10%         |
|   | <u>100.00%</u> |

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Remark: (\*) The corporate investors include:-

- **NWS Holdings** (HKEx: 0659) subscribing for HK\$59 million;
- **China Life Insurance (Group) Company** subscribing for HK\$118 million;
- **Fidelity Insurance** subscribing for HK\$78 million;
- **Grahamstowe Investments** subscribing for HK\$118 million;
- **Li Ka Shing Foundation** subscribing for HK\$118 million;
- **New World Development** (HKEx: 0017) subscribing for HK\$59 million; and
- **Sinotrans (HK) Holdings** subscribing for HK\$78 million

### Use of Proceeds

Net proceeds from the offer are estimated to be HK\$3.224 billion (Assuming an offer price of HK\$5.65, being the mid-point of the indicative offer price range, and the over-allotment option is not exercised)

|  | HK\$ million |
|--|--------------|
| For the acquisition of mining rights in mines with sizable proved mineral reserves and/or the acquisition of exploration rights in areas with more apparent substantial mineral resources and/or the acquisition of equity interest in the holders of such mining rights and exploration rights. | 1,977.1      |
| For further exploration of areas in which the Group has mining rights and exploration rights as well as explorations in the newly acquired mines.  | 150.0        |
| For expansion of the mining and ore processing of the Kalatongke Mine.   | 300.0        |
| For expansion of the refining capacity of the Fukang Refinery  | 150.0        |
| To pay the remaining balance of the consideration for the transfer of mining rights of the Kalatongke Mine payable to the Land and Resources Department of Xinjiang Uygur Autonomous Region (新疆維吾爾自治區).  | 237.6        |
| For general working capital  | 409.5        |

### Financial Highlights

|  | Year ended 31 <sup>st</sup> Dec |                   |                   | 3 months ended            |                           |
|--|---------------------------------|-------------------|-------------------|---------------------------|---------------------------|
|  | 2004                            | 2005              | 2006              | 31 <sup>st</sup> Mar 2006 | 31 <sup>st</sup> Mar 2007 |
|  | RMB '000                        | RMB '000          | RMB '000          | RMB '000                  | RMB '000                  |
| Revenue                                    | 439,669                         | 544,741           | 869,068           | 161,526                   | 326,346                   |
| Gross profit                               | 213,282                         | 274,077           | 520,649           | 93,865                    | 204,045                   |
| Operating profit                           | 174,358                         | 199,706           | 452,918           | 80,373                    | 192,317                   |
| <b>Profit attributable to shareholders</b> | <b>112,728</b>                  | <b>193,696</b>    | <b>444,004</b>    | <b>77,943</b>             | <b>190,141</b>            |
| Gross profit margin                        | 48.51%                          | 50.31%            | 59.91%            | 58.11%                    | 62.52%                    |
| Operating profit margin                    | 39.66%                          | 36.66%            | 52.12%            | 49.76%                    | 58.93%                    |
| Net profit margin                          | 25.64%                          | 35.56%            | 51.09%            | 48.25%                    | 58.26%                    |
|  | <b>31/12/2004</b>               | <b>31/12/2005</b> | <b>31/12/2006</b> | <b>31/3/2006</b>          | <b>31/3/2007</b>          |
| Net debt/(cash) to Equity                  | (17.15%)                        | (44.80%)          | (39.84%)          | N/A                       | (24.85%)                  |

### Turnover breakdown in terms of products

| (RMB million)      | 2004  | %    | 2005  | %    | 2006  | %    | 1Q06  | %    | 1Q07  | %    |
|--------------------|-------|------|-------|------|-------|------|-------|------|-------|------|
| Nickel cathode     | 313.0 | 71%  | 407.0 | 75%  | 604.7 | 70%  | 94.3  | 58%  | 281.0 | 86%  |
| Copper products    |       |      |       |      |       |      |       |      |       |      |
| Copper cathode     | 68.5  | 15%  | 93.9  | 18%  | 161.9 | 19%  | 34.4  | 22%  | 33.9  | 10%  |
| Raw copper         | 17.5  | 4%   | 29.8  | 5%   | 33.8  | 4%   | -     | -    | -     | -    |
| Copper concentrate | 16.1  | 4%   | 1.4   | 0%   | 48.4  | 5%   | 29.7  | 18%  | -     | -    |
| Other products     | 24.6  | 6%   | 12.6  | 2%   | 20.3  | 2%   | 3.1   | 2%   | 11.4  | 4%   |
| Total              | 439.7 | 100% | 544.7 | 100% | 869.1 | 100% | 161.5 | 100% | 326.3 | 100% |

**Strengths/Opportunities**

- ✓ Nickel is used extensively as an alloying agent in the production of stainless steel, super-alloys and a variety of nickel-copper alloys. The demand for the Nickel has been strong in the Mainland, mainly due to the keen demand for stainless steel from the booming transportation and the architectural industries as well as usage in the manufacture of consumer products like kitchen equipment. Annual domestic nickel production was less than half of the total demand for the metal, and China has to rely on imports to come up with the supply deficit. The undersupply is expected to intensify this year, which should help support nickel prices in the Mainland.
- ✓ Thanks to abundant metal resources in Xinjiang, Xinxin possessed a high self-sufficiency rate of 81.0% in nickel cathode production in 2006, versus an industry average of 50.4% in the Mainland. Self-sufficiency for the Group's copper smelting stood at 94.7% last year, compared with an industry average of 29.3%. Supported by the abundant resources in the Kalatongke Mine, self-sufficiency for nickel and copper further improved during the first three months of 2007, which should reduce reliance on external procurement and support profit margins. Nonetheless, the ratio may drop in the next couple of years, as the Group is planning to expand aggressively its downstream capacity. The Group management expect the ratio to revive to normal levels by the end of 2009.
- ✓ The Group plans to expand its mining capacity from 1,000 tonnes per day in 2007 to 3,400 tonnes per day by 2009. It is also planning to boost its annual refining capacity from 5,000 tonnes this year to 13,000 tonnes by 2009. The expansion is expected to further strengthen the Group's leading position as an integrated nickel producer in the Mainland.
- ✓ The Group is expecting a net profit of no less than RMB466 million for the six months ended 30<sup>th</sup> June 2007, which would surpass the full-year earnings reported in FY2006 (RMB444.0 million).

**Weaknesses/Threats**

- × Xinxin primarily extracts nickel from sulphide ore. Certain overseas producers are now developing nickel extraction from lateritic ore. The technique in extracting nickel from lateritic ore has become more developed, which may be utilised in commercial operation in the near future. It would lead to an increase in global nickel supply and may depress worldwide nickel product prices.
- × The Chinese government has raised resources tax of non-ferrous metal ore since 1<sup>st</sup> August 2007. With the current mining capacity, the Group management expects the maximum increase in resources tax for FY2007 would amount to RMB1.26 million, which will have insignificant impact on the Group's full-year earnings.
- × The Group's net income, except for its Shanghai Branch (the Group's sales arm in eastern China), was taxed at preferential rate of 15% for FY2004 and FY2005. Xinxin, except for its Shanghai Branch, was also exempted from enterprise income tax from 2005 to 2006. As a result, the Group's income tax expense dropped sharply from RMB57.5 million in FY04 to RMB366,000 in FY05 and RMB119,000 in FY06. This tax exemption was extended to 2010 pursuant to the approval from Xinjiang Uygur Autonomous Region Government. The Group's income tax rate may return to normal (25%) beyond 2010 if it fails to further extend its tax exemption, which may lead to a sharp rise in tax expense since then.

**Recommendation:     Subscribe**

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