

Grand T G Gold



Gold mine started to contribute

Not Rated

An emerging gold miner in China. Espco was engaged in the manufacture, sale and distribution of desktop personal computer display cards in China, Hong Kong, Macau and Singapore. At the end of April 2008, the company acquired 72.0% interests in Taizhou Gold mine from SSC Mandarin, at the consideration of HK\$1.2b, which was satisfied as to:

- HK\$60.0m in cash.
- HK\$207.4m by issuance of 1.4b consideration shares at HK\$0.15 each.
- HK\$806.4m by the issuance of five-year convertible bonds with annual interest rate of 4.0% and conversion price of HK\$0.15 each. 5,376.0m shares will be issued upon the exercise of the convertible bonds.
- HK\$60.0m by issuance of 18 months, zero coupon promissory note.
- HK\$78.2m by the issue of a 36 months promissory note with annual interest rate of 4.0%.

Following the acquisition of Taizhou gold mine, the company will be engaged in the exploration and exploitation of precious metals and mineral resources (mainly gold) in China. In order to reflect the company's new scope of business, the company changed its name to Grand T G Gold in August 2008.

Immediate contribution from gold mining division. Thanks to the contribution from the newly acquired gold mining business, the company saw its respective gross profit and net profit surged by 257.0% YoY and 199.0% YoY, to HK\$19.7m and HK\$5.5m; despite the fact that its turnover dropped 25.7% YoY to HK\$65.4m for 1Q FY03/09F. The gold mining division started to provide contribution to the company since the beginning of May 2008. During the period, all of the revenue of the company's gold mining division was derived from the sales of gold concentrates; no sales of mined ore or by-products were reported.

Lucrative business. During the period under review, contribution from the gold mining division accounted for 38.9% of the group's total turnover, or HK\$25.4m. The gold business commanded lucrative gross profit margin and operating margin of 61.1% and 57.9%, respectively.

Prime location of the mines. Taizhou Gold Mine is located in Xiaoqinling Gold-Silver District, the second largest gold-rich region in China, with a total area of 700 sq. km, which is approximately 100.0km southeast of Xi'an, the capital of Shaanxi Province. It is 25.0km away from Xi'an-Tongguan

China resources

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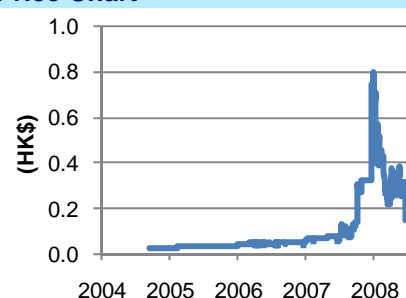
Stock data

Price	HK\$0.072
Target price	na
12 mth range	HK\$0.065-0.84
Market cap.	US\$46.5m
Daily t/o, 3 mth	US\$1.2m
Free float %	42.7%
Ticker	8299.HK/8299 HK

Financial summary

Year to Mar	06A	07A	08A
Turnover (HK\$m)	402.4	320.1	250.9
Net profit (HK\$m)	8.5	3.7	(11.6)
EPS (HK\$m)	0.024	0.001	(0.003)
EPS Δ %	na	(95.8)	na
P/E (x)	2.9	69.0	na
P/B (x)	0.30	0.29	1.7
EV/EBITDA (x)	53.3	48.9	0
Yield (%)	13.0	5.7	na
ROE (%)	10.3	4.4	(9.6)
ROCE (%)	9.3	3.7	(7.5)
N. Gear. (%)	Cash	3.7	Cash

Price Chart



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Expressway and 15.0km away from Tongguan Station of Longhai Railway.

Mining assets owned. The company holds four mines, namely, Taizhou Q576, Taizhou Q470, Taizhou Q530 Mines, and Luonan gold mine in the mining area. Further it obtained five exploration permits on Lingyu-Haochayu-Liangchakou, Lijiazhuang, Tongyu-Mayu, Huimaping- Sunjiagou, and Daxianglugou gold mines in the mining area.

Resources are expandable. The current mining and exploration licenses owned by the company cover a total area of about 69.0 km with estimated gold reserves of 34,422.0kg under the Australian Joint Ore Reserves Committee (JORC) code. The mining and exploration area is expandable to 200.0km². Total gold reserves and resources can be potentially expanded to 60,000.0kg within the existing mining and exploration areas upon completion of further geological exploration. According to the technical report prepared by SRK Consulting and valuation report prepared by Greater China Appraisal, valuation of Taizhou amounted to RMB3,798.0m.

Expansion in ore processing capacity. The company currently has an annual ore processing capacity of 120,000 tons, or 0.6 tons of gold concentrate. It plans to boost up its ore processing capacity to 400,000 tons per annum (or 2.2 tons of gold concentrate) by end of this year and to 600,000 tons per annum (or 3.2 tons of gold concentrate per annum) by the end of 2010.

Investment plan. RMB300.0m has been earmarked for capacity expansion in mines and ore processing plant, as well as exploration of resources and upgrading exploration terminals between 2008 and 2010.

Strategic investor. In January, the company placed 300.0m new shares at HK\$0.27 each and raised HK\$78.2m. In July 2008, the company issued and allotted 58.0m new shares to Chow Tai Fook Nominee (beneficially owned by Dr. Cheng Yutung) at HK\$0.27 each and raised HK\$15.4m. The subscription shares are subject to a lock-up period of three months from July 10, 2008 to October 10, 2008. Further, the company reached an option subscription agreement with Chow Tai Fook Nominee. Under the agreement, the company will grant 500.0m options which can be converted into 500.0m new shares at HK\$0.27 each to Chow Tai Fook Nominee. Dr. Cheng and his family owns a controlling 36.5% interest in New World Development (17 HK, HK\$13.68, NR), a conglomerate listed on HKEX, as well as Chow Tai Fook Jewellery and a substantial interest in Mongolia Energy (276 HK, HK\$6.85, NR).

Baker Steel is another strategic investor of the company who is a professional investment manager specializes in gold and other precious metal. By adopting value-oriented and fundamental-driven approach to elevate investment opportunities in the global mining and resource sectors, Baker Steel has established proven track record on investment in mining and natural resource sectors. It had been investor of Lingbao Gold (3330 HK, HK\$2.22, NR), Fujian Zijin Mining Industry (2899 HK, HK\$4.80, NR) and Zhaojin Mining Industry (1818 HK, HK\$6.35, NR), all of which are major gold/ precious metals producers in China listed on the HKEX.

Team up with China Gold Association. Beijing Gold Technology Project Consulting Company (BGT), a wholly-owned subsidiary of China Gold Association (CGA), holds 8.0% interests in Taizhou Mining. CGA is a nation-wide organization under the State owned Assets Supervision and Administration Commission. It currently has over hundreds of members, and most of them are renowned and well-established enterprises in China gold industries, including Shanghai Gold Exchange, China National Gold Group, Shandong Gold Group, Zhongjin Gold, Shandong Zhaojin Group and Fujian Zijin Mining. The association is the major advisor of the government in the legislation of rules and regulation concerning the industrial practice of Chinese gold industry. As a nationwide association in the gold industry in China, CGA possesses substantial amount of information on aspects of gold resources in the country, as well as enterprises engaging in Chinese gold industry in China. In December 2007, BGT granted Taizhou Mining a preferential right. Under which, BGT will provide information to Grand T G Gold in relation to potential mergers and acquisitions opportunities in Chinese gold mining industry, Further, Beijing Gold Consulting will advise the company on potential corporation opportunities with other gold miners in the country. Grand T G Gold can leverage on CGA's extensive network in China gold industry and rich database to speed up its expansion pace.

Strong partner. Grand T G Gold has teamed up with Rand Refinery, the operator of the world largest single-site refining and smelting complex for a variety of precious metal products in South Africa. Since incorporation, Rand Refinery has processed more than 40,000 tons of gold, representing more than one third of all the gold ever extracted world-wide. Rand Refinery was awarded London Bullion Market Association (LBMA) Good Delivery status and accredited by New York Mercantile Exchange (NYMEX) and the Tokyo Commodity Exchange (TOCOM). Rand Refinery was the first refinery to receive 'Dubai Good Delivery Status' as awarded by the Dubai Metals and Commodity Center (DMCC). Rand Refinery owns ISO 9001/2000, ISO 14001 and OHSAS 18001 quality and environmental certification. Grand T G Gold can leverage on Rand

Refinery's expertise in gold refining to enhance its gold concentrate production yield.

Share capital. The group has 5,871.4m shares outstanding. Should Chow Tai Fook Nomine exercise the options granted by the company, the company's total issue share capital would expand to 6,371.4m shares. 5,376.0m shares would be issued upon the conversion of consideration convertible bonds held by the vendors, and the group's total number of share capital would expand to 11.7b shares.

Table 1: Valuation of Gold miners

Company name	Ticker	Year End	Currency	Price	Market Cap (US\$m)	P/E (x) 1-yr forward	P/E (x) 2-yr forward
Lingbao Gold	3330 HK	Dec	HKD	2.1	208.1	4.9	4.3
Zijin Mining	2899 HK	Dec	HKD	4.48	10,207.8	15.2	13.5
Zhaojin Mining	1818 HK	Dec	HKD	5.73	695.2	10.7	10.2
Sino Gold Mining	SGX AU	Dec	AUD	4.36	1,099.4	41.5	13.5

Source: Bloomberg