

Mongolia

Strategy

Research Note

July 20, 2010

Hong Kong Listed Companies Rush to Mongolia

Hong Kong-listed Companies as Major Acquirers of Resource Assets in Mongolia. Over the last 12 months, Mongolia has become an attractive investment destination for the companies listed on the Hong Kong Stock Exchange (HKEx). Attracted by the country's huge mineral resources, the HKEx-listed companies have become the biggest acquirers of Mongolia resource assets since the second half of 2009 (\$966mn worth of M&A deals or over 90% of total).

Asset Injections. All recent Mongolia M&A deals in which Hong Kong companies were involved have been completed through injections of resource assets into the existing publicly listed companies. Before acquisitions, these companies engaged in a diverse range of activities and industries including agriculture, waterworks, IT, clean tech, plastic products and even manufacturing of toys and gifts. Following acquisitions, these below HKEx-listed companies are now primarily Mongolia-focused resource companies:

- **Bestway International Holdings (0718:HK)**, an investment holding company engaged in trading of plastic products, has acquired two tungsten mines in Mongolia for HK\$940mn (US\$121mn) in July 2009
- **North Asia Resources Holdings Ltd (0061:HK)**, formerly known as Green Global Resources Ltd. acquired 100% of North Asia Resources Group Ltd., a private resource company in Mongolia, for HK\$1.76bn (US\$227mn) in December 2009
- **Kiu Hung Energy Holdings Ltd (0381:HK)**, an investment holding company with businesses in energy, gift and toy industries, acquired coal assets in Mongolia from First Dean Holdings Ltd for HK\$1.4bn (US\$180mn) in March 2010
- **Solartech International Holdings Ltd (1166:HK)**, a manufacturer of cables, wires, connectors and terminals, has acquired a 87.9% stake in Sun Progress Ltd which owns copper-gold-silver mine in Mongolia for US\$193mn in May 2010
- **Ming Hing Waterworks Holdings Ltd (402:HK)**, engaged in waterworks, technology, engineering acquired a number of coal, gold and copper mining and exploration licenses in Mongolia for HK\$1.94bn (US\$245mn) in June 2010
- **Mongolia Energy Corp (0276:HK)**, formally New World CyberBase Ltd was the first HKEx-listed company to acquire a resource asset in Mongolia through asset injection. It paid HK\$1.2bn (over US\$150mn) for a coal mine in January 2007.

Overpaid Deals. In our view, most of these companies have overpaid for these earlier stage resource assets. Poor post-acquisition share price performance only underscores investor concerns (Solartech is down 75% since May 2010 deal announcement). Owners of target companies with Mongolian assets (primarily mainland Chinese and Hong Kong private investors) are clear winners as they have disproportionately benefited from these deals.

More asset injections to come amid zeal for "Mongolia resource play". We expect more Hong Kong-listed companies to pursue M&A deals in Mongolia through asset injections in a quest to transform into "resource play". Some small-cap companies may find too tempting to acquire resource assets in Mongolia in order to revive their sagging fortunes and join the growing league of Mongolia-focused resource companies at the HKEx. At the same time, the private owners of resource companies in Mongolia would target small-sized HKEx-listed companies in their effort to seek "back-door listing" through lucrative reverse takeovers.

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HKEx-listed Companies – Major Acquirers of Resource Assets in Mongolia

Over the last 12 months, Mongolia has become an attractive investment destination for the companies listed on the Hong Kong Stock Exchange (HKEx). Attracted by the country's huge mineral resources, the HKEx-listed companies have become the biggest acquirers of Mongolia resource assets since the second half of 2009 (\$966mn worth of M&A deals or over 90% of total). One of the biggest M&A deals of 2009 was the HKEx-listed Green Global Resources' acquisition of North Asia Resources Group for US\$227mn. The interest of the HKEx-listed companies further increased after the long-awaited massive Oyu Tolgoi project was signed in October last year (see Annex).

Resource assets in Mongolia are a popular target for Hong Kong listed companies

Asset Injections

All recent Mongolia M&A deals in which Hong Kong companies were involved have been completed through injections of assets into the existing HKEx-listed companies. The details of these deals are the following:

All M&A deals were completed through asset injections into Hong Kong-listed companies

- **Bestway International Holdings (0718:HK).** Bestway International Holdings, an investment holding company engaged in trading plastic products, primarily PVC films, acquired two tungsten mines for US\$121.3mn (HK\$940mn) in July 2009. The company paid US\$87.7mn (HK\$680mn) and US\$33.5mn (HK\$260mn) for the two tungsten mines respectively.
- **North Asia Resources Holdings Ltd (0061:HK).** Green Global Resources Ltd. (GGR), a HKEx-listed company, acquired the entire issued share capital of North Asia Resources Group Ltd., a private resource company in Mongolia, for a total consideration of HK\$1.76bn (US\$227mn) in December last year. HK\$31.5mn was paid in shares, HK\$1,273.65mn in convertible preference shares, HK\$442.27mn in promissory notes and remaining HK\$12.8mn by way of deposit. At the time of the deal completion, North Asia Resources Group Ltd. owned a 90% interest in Golden Pogada LLC, a holder of a mining license on the Oyut Ovoo iron ore deposit. On February 11, 2010, GGR announced the completion of a private placement raising US\$51mn by issuing 232,140,000 shares at a price of HK\$1.68 (US\$0.22) to develop recently acquired mining businesses in Mongolia. GGR announced on April 23, 2010, that it changed its name to North Asia Resources Holdings Ltd.
- **Kiu Hung Energy Holdings Ltd (0381:HK).** Kiu Hung Energy Holdings Ltd, an investment holding company with businesses in coal energy, gift and toy industries, acquired coal assets in Mongolia from First Dean Holdings Ltd in

March 2010. First Dean Holdings' principal asset is 100% equity interest in HMC, a company incorporated in Mongolia, which held three exploration licenses for coal mines in Khovd province of Mongolia. The Hong Kong-listed Kiu Hung agreed to pay HK\$1.4bn (US\$180mn) in total, of which HK\$1.22bn by issuing convertible bonds and the remaining in cash and by issuing new shares.

- **Solartech International Holdings Ltd (1166:HK).** Solartech International Holdings Ltd, a HKEx-listed manufacturer of cables, wires, copper rods, connectors and terminals, acquired a 87.9% interest in Sun Progress Ltd which holds a copper-gold-silver mine in Mongolia for US\$193.1mn on May 4, 2010. According to the terms of the agreement, Solartech agreed to pay US\$8.76mn (HK\$68mn) in cash and US\$184.4mn (HK\$1.432bn) in convertible bonds. The conversion price for the convertible bonds was reset to HK\$0.10 from an initial conversion price of HK\$0.15.
- **Ming Hing Waterworks Holdings Ltd (402:HK).** In June 2010, Ming Hing Waterworks Holdings Ltd, a holding company that integrates waterworks, technology, engineering and investment management services, acquired the entire interest in Well Delight Holdings Ltd which held through its subsidiaries a number of coal, gold and copper mining and exploration licences in Mongolia. Ming Hing Waterworks Holdings Ltd agreed to pay HK\$1.94bn (US\$245mn) for the acquisition.

In our view, most of these companies have overpaid for these earlier stage resource assets. Poor post-acquisition share price performance only underscores investor concerns (Solartech is down 75% since May 2010 deal announcement). Owners of target companies with Mongolian assets (primarily mainland Chinese and Hong Kong private investors) are clear winners as they have disproportionately benefited from these deals.

Conclusion

We expect more Hong Kong-listed companies to pursue M&A deals in Mongolia through asset injections in a quest to transform into "resource play". Some small-cap companies may find too tempting to acquire resource assets in Mongolia in order to revive their sagging fortunes and join the growing league of Mongolia-focused resource companies at the HKEx. At the same time, the private owners of resource companies in Mongolia would target small-sized HKEx-listed companies in their effort to seek "back-door listing" through lucrative reverse takeovers.

Annex

Hong Kong listed Companies' Acquisition of Mongolian Assets and Companies

Target Company (TC)	Buyer	Buyer Company MktCap, \$mn	TC Resource Type	TC Reserves	Stake, %	Deal Terms	Date
Well Delight Holdings Ltd/ Tugrugnuuriin Energy LLC	Ming Hing Waterworks Holdings Ltd	64	Coal, copper and gold	64mn tn coal and copper and gold resources	100	US\$245mn	30.05.10
North Asia Resources Group	Green Global Resources	139.96	Iron ore	148.9mn tn iron, 180,000 tn copper*	100	US\$227mn	16.12.09
Sun Progress Ltd/Ikh Shijir Erdene LLC	Solartech International Holdings	34.78	Copper, gold, silver	4.19 tn gold, 196.34 tn silver, 1.44mn tn copper	87.9	US\$193mn	04.05.10
First Dean Holdings Ltd	Kiu Hung Energy Holdings Ltd	259.9	Coal	N/A	100	US\$180mn	17.03.10
Two Tungsten mines	Bestway International Holdings	42.02	Tungsten	First Target Mine-482,271tn tungsten, Second Target Mine-485,815tn tungsten	100	US\$122mn	03.07.09
Millennium Hong Kong Group Ltd/Concession area	Mongolia Energy Co Ltd	2,346	Ferrous resources	504mn tn	100	US\$35mn	24.06.09
Petroleum block Ergel-XII			Oil&Gas	20% consortium member in 1.18MM hectares oil & gas project		US\$52.8mn	18.09.08
Mining Assets			Coal	3.4-4.4bn tn		N/A	16.05.07
Khushuut Coal Mine			Coal	149.2mn tn		US\$154.1mn	08.02.07

Source: Various sources, Eurasia Capital

*measured, indicated and inferred resources

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