

Lion Selection

From LIC to mining company

LST is trading at a 15% discount to its NTA of A\$2.05/share. It now has the opportunity to acquire full ownership of its 30%-owned +100,000 ounce per year Cracow gold mine. As a mining company, we expect the share price to re-base as a company not an LIC.

Key forecasts

	FY06A	FY07A	FY08F	FY09F	FY10F
EBITDA (A\$m)	-2.57	12.5	19.7	20.0	21.0
Reported net profit (A\$m)	43.7	5.85	11.1	11.2	12.0
Normalised net profit (A\$m) ¹	43.7	5.85	11.1	11.2	12.0
Normalised EPS (c) ¹	43.6	2.97	5.63	5.72	6.11
Normalised EPS growth (%)	35.7	-93.2	89.7	1.43	6.96
Dividend per share (c)	10.0	10.0	10.0	10.0	10.0
Dividend yield (%)	5.71	5.71	5.71	5.71	5.71
Normalised PE (x)	4.01	58.9	31.1	30.6	28.6
EV/EBITDA (x)	n/m	2.90	2.03	2.17	2.19
Price/net oper. CF (x)	-41.2	32.5	21.5	21.2	20.2
ROIC (%)	-2.06	3.86	4.59	4.76	5.21

1. Pre-goodwill amortisation and exceptional items

Accounting Standard: IFRS

Source: Company data, ABN AMRO Morgans forecasts

year to Jul, fully diluted

Lion Selection - a Listed Investment Company (LIC)

Lion Selection listed on the ASX as a Pooled Development Fund, raising A\$100m. Since its formation it has paid out A\$85m in dividends. Subsequent to its merger with ASX-listed AuSelect, it changed its status to that of a conventional public company in early 2007. Lion Selection invests in listed and unlisted companies directly and also through its partially-owned African Lion and Asian Lion funds. At 31 October 2007, LST reported A\$42m in cash and A\$291m in investments, a total of A\$233m.

The Cracow gold mine - becoming a mining company

Lion also holds a 30% direct interest in the Cracow gold mine, central Queensland, operated by 70% owner Newcrest, which produced 120,390 ounces in the 12 months to end-October, at an average cash cost of A\$337/oz. Lion has no hedging and sells at the spot price. Newcrest has approached a number of parties about selling its 70% interest in Cracow. Lion holds a pre-emptive right to match any offer received by Newcrest, and has "sufficient time to exercise its pre-emptive right". Our valuation for Lion's 30% interest - including a notional value for exploration upside - is A\$96m. Full ownership would transform Lion from an LIC to a well funded and well-resourced mining company with a pipeline of potential resource developments.

The major investments

The two African Lion funds, in which LST is invested with the national commercial and development banks have an attributable value of A\$78m. The major holdings are a 21.7% interest in ASX-listed Albidon (LST value: A\$28m) and an 8.2% interest in ASX-listed Sphere (LST value: A\$11.3m). Lion's investment in the recently formed Asian Lion is A\$7.7m. Direct equity investments in ASX-listed companies include Indophil (25.7% - A\$94m), Havilah (19.0% - A\$27.0m), Allegiance (5.0% - A\$29.0m), Exco (10.5% - A\$11m), View (9.0% - A\$8.0m) and Westonia (44.4% - A\$17.0m). It also has a number of other equity interests in ASX-listed companies. Both the funds and the direct investments provide a pipeline for potential development opportunities. We commence coverage with a Buy and target price of A\$2.05.

Important disclosures can be found in the Disclosures Appendix.

Priced at close of business 6 December 2007.

Buy

Absolute performance

n/a

Short term (0-60 days)

Materials

Australia

Price

A\$1.75

Target price

A\$2.05

Market capitalisation

A\$100.69m (US\$87.65m)

Avg (12mth) daily turnover

A\$0.64m (US\$0.55m)

Reuters

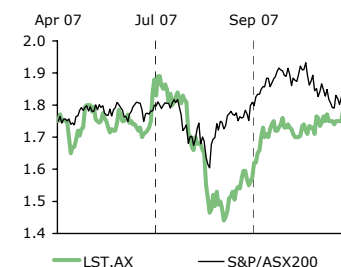
LST.AX

Bloomberg

LST AU

Price performance (1M) (3M) (12M)

Price (A\$)	1.7	1.5	n/a
Absolute %	0.9	14.4	n/a
Rel market %	2.0	10.1	n/a
Rel sector %	10.8	2.2	n/a



Stock borrowing: n/a

Volatility (30-day): 17.6%

Volatility (6-month trend): ↓

52-week range: 1.91-1.34

S&P/ASX200: 6508.10

BBG AP Mining: 484.27

Source: ABN AMRO, Bloomberg

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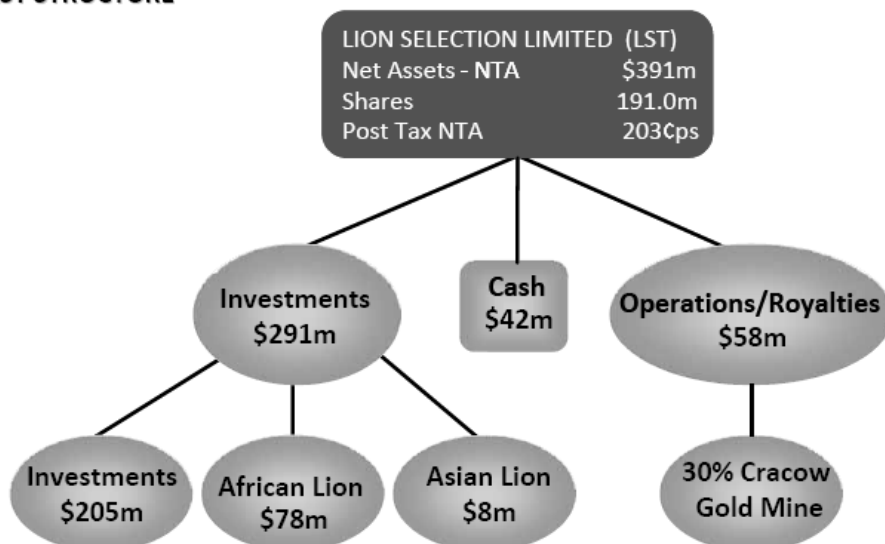
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Company overview

While Lion has a portfolio of investment interests (valued at A\$291m, plus cash of A\$42m at 30 October) which remain the dominant components of its value, it has stated its intention of becoming an operating mining company. Lion currently holds a 30% interest in the Cracow gold mine, in central Queensland, operated by 70% owner Newcrest Mining Limited (NCM.AX), which it acquired with the takeover of ASX-listed Sedimentary Holdings. Newcrest has approached a number of parties about the possible sale of its 70% interest. Lion Selection holds a pre-emptive right which enables it to match any offer made for Newcrest’s interest in Cracow. The company states that “Lion will have sufficient time to exercise its pre-emptive right should an offer be made that Newcrest will accept.” Given Lion’s current cash and asset base, we would expect that LST would be in a strong position to match any reasonable offer.

Figure 1 : Corporate structure and value as at 31 October 2007

LST STRUCTURE



Source: Lion Selection Limited

The Cracow gold mine

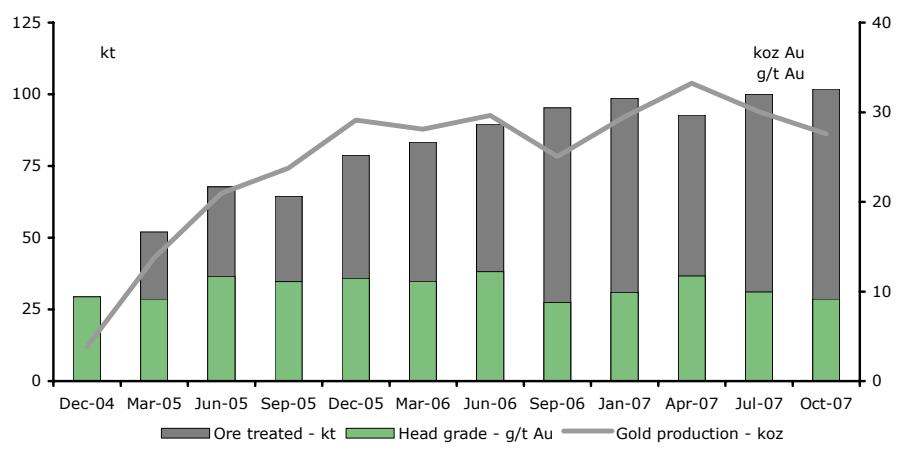
The Cracow mine was commissioned in the September 2004 quarter. In the 12 months to 30 October 2007 – LST’s financial year end – Cracow produced 120,390 ounces of gold at a cash cost of A\$337 per ounce. This is in line with previous production, although costs are rising. In the final quarter, production was 27,603 ounces at a cash cost of A\$425 per ounce. While the cash cost quoted includes royalties, which were higher with the higher gold price, it also reflected the broader industry-wide higher operating cost regime.

Mineral reserves at Cracow are reported as 290,000 ounces of gold, with resources of 850,000 ounces. Additional resource potential exists within the known mineralised structures, and also to identify extensions to and repeats of these structures.

We have valued 100% of Cracow in a number of ways, with a range from A\$227 based on earnings using our gold price and exchange rate assumptions, to A\$280m using the current spot gold price and exchange rate. We have employed a valuation of A\$253m for 100% of Cracow, the mid-point between the two. It also equates to A\$300 per resource ounce, reflecting the cash margin which we anticipate from

future production. We have arbitrarily assigned a value of A\$67m to the exploration upside at Cracow.

Chart 1: Cracow gold mine – 30% of quarterly production



Source: Lion Selection Limited

In our assessment, the Cracow acquisition would confirm that Lion Selection is on the path to becoming a conventional mining company, with the value of production assets approaching the value of investments. We would expect that the market would move to value LST as such, rather than trading at a discount to NTA.

The African and Asian Lion Funds

African Lion Limited (LST 29.8%) is an unlisted investment fund formed to invest in resource opportunities in Africa. Other shareholders are CDC Capital Partners (a leading UK-based development finance institution), Investec Bank (a leading South African investment and banking group), the European Investment Bank (owned by the EU member states) and PROPARGO (a member of the Agence Francais de Development group, and a leading development finance institution in Africa). Lion Selection has an 18.6% interest in a second African Lion fund with these partners. The combined value of Lion’s investments in these funds is A\$78m. During the 2007 year the funds sold their interest in Platmin, listed on the Toronto Stock Exchange, for a profit of about A\$100m. Remaining investments include the ASX-listed Albidon (Tanzania – nickel), Sphere Investments (Mauritania – iron ore), and Mineral Deposits (Senegal – gold, mineral sands). Both funds are effectively fully invested. Lion Selection has announced that a third fund will be opened in early 2008.

An Asian Lion Fund was established with Lion Selection committing US\$7m. Proparco, International Finance Corporation (the private sector arm of the World Bank) and European bank ABN AMRO are also contributors to the US\$21.6m fund. Lion Selection manages this fund, which provides investors with the portfolio approach to high-risk, high-reward junior resource companies, including Asian Mineral Resources (Vietnam – nickel), Mindoro Resources (Philippines – copper/gold/nickel) and Indo Mines (Indonesia – iron sands).

Direct Equity Investment

Indophil Resources NL – LST holding 25.7%

Indophil (IRN.AX) is the major direct investment for Lion. It has a 37.5% interest in the Tampakan copper-gold project on Mindanao, the Philippines. The operator, Xstrata (62.5%), is currently completing a full feasibility study into development of a copper-gold mine. The preliminary feasibility study completed in September 2006 confirmed that Tampakan, on Mindanao, the Philippines, is technically and financially robust. The 2bn-tonne deposit – containing 11.6m tonnes of copper and 14.6m ounces of gold – is capable of supporting a large-scale copper-gold mine. A capital cost of US\$1.4bn is estimated for a mine producing 210,000 tonnes of contained copper and 218,000 ounces of gold per year over the first 10 years of an initial mine life of 25 years. Indophil reported A\$108.5m cash at 30 September 2006.

Figure 2: Direct and indirect investments

At 31/10/2007	Code	Country/Commodity	Lion Selection Holding %	Investment \$m	Market Value \$m
DIRECT INVESTMENTS					
Allegiance Mining	AGM	Australia - nickel	5.0%	5.2	28.8
Exco Resources	EXS	Australia - copper/gold	10.5%	5.4	10.8
Havilah Resources	HAV	Australia - gold/base metals	19.0%	4.2	27.3
Indophil Resources	IRN	Philippines - copper/gold	25.7%	22.6	93.6
View Resources	VRE	Australia - gold/nickel	9.0%	8.7	8.0
Westonia Mines	WEZ	Australia - gold	44.4%	14.6	16.9
Other		Investments less than 2% of Net Assets & includes ARX, DEG, & LAF		44.8	19.5
TOTAL DIRECT INVESTMENTS				105.5	204.9
AFRICAN & ASIAN LION					
African Lion Funds			27.4%	8.9*	78.1
Albidon	ALB	Zambia - Ni	5.7%	3.3	28.1
Platmin - TSX	PPN	South Africa - PGMS	2.7%	3.5	30.5
Sphere Investments	SPH	Mauritania - iron ore	1.9%	1.4	11.3
Other including cash committed					8.0
Asian Lion Fund			32.4%	8.0	7.7
Total invested (including cash)				3.4	3.0
Cash committed				4.7	4.7
TOTAL AFRICAN & ASIAN LION				17.0	85.8
NET CASH					42.4

Source: Lion Selection Limited

Havilah Resources NL – LST holding 19.0%

Havilah (HAV.AX) has a major ground position in the Curnamona Province, where it is exploring for copper, gold, molybdenum, zinc and uranium, and is progressing feasibility studies on three mineral development projects. At the Portia Gold Project work continues on an application for a mining licence, which will allow the commencement of a trial open pit.

At Kalkaroo, Glencore has committed A\$14m to fund development of the copper-gold-molybdenum deposit outlined by Havilah. Glencore will earn a 14% interest in Kalkaroo, and will also earn the marketing rights to the products.

Havilah's Chinese JV partners, Heilongjiang Resources Limited, are funding an A\$3m feasibility study into development of the Mutoroo copper cobalt project, and with a positive outcome, will fund 100% of mine development for a 50% interest in the project.

Havilah holds 30m shares (47.7%) in Curnamona Energy (CUY.AX), and intends to distribute the bulk of this holding *in-specie* to HAV shareholders. It has a 63.6% holding in Geothermal Resources (GHT.AX) and a 10% interest in Monax Mining (MOX.AX).

Allegiance Mining NL – LST holding 5.0%

At Avebury, located 8km from Zeehan, Tasmania, Allegiance has defined 12m tonnes of 1.1% nickel, containing 131,000 tonnes of nickel. It will produce 900,000 tonnes of ore per year from the Viking Decline mine, processed to produce over 18.5m pounds of nickel in concentrate. The nickel concentrate will be a premium product with over 20% contained nickel. At Avebury, the primary ball mill was installed onto its footings in late July, and primary steel fabrication works are now essentially complete. AGM now expect to commence plant commissioning in the March Quarter 2008.

Valuation and risks

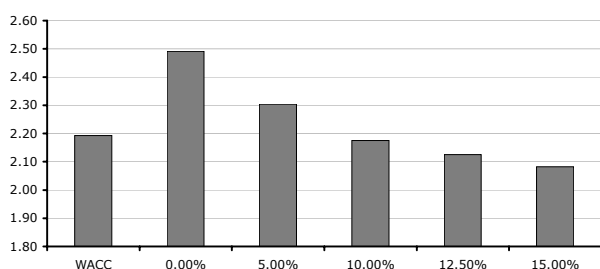
We use a combined DCF/SOTP valuation for LST. At 31 October 2007, LSG reported net tangible assets (NTA) of A\$391m, or A\$2.05 per share using the market value for all investments, its cash balance and the historical cost for its 30% interest in the Cracow gold mine. Until the potential acquisition of the remaining 70% of Cracow is finalised, we derive our target price based on LST reported NTA as at October 31.

LST is subject to risks associated with minerals exploration, development and production. However, this is minimised through the diversification of companies and geographic regions. There are also the risks associated with the individual investee companies, as they move from development through to operating risks.

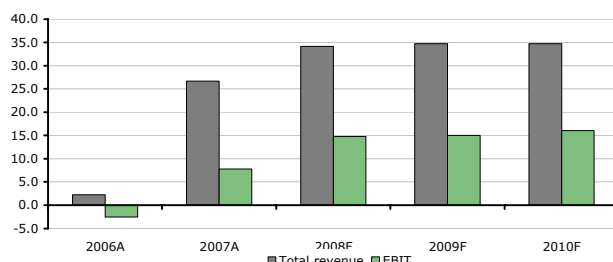
LST – financial summary

Year to 31 Jul (A\$m)	AIFRS 2006A	AIFRS 2007A	AIFRS 2008F	AIFRS 2009F	AIFRS 2010F	Closing price (A\$)	1.75	Price target (A\$)	2.05	
Income statement						Valuation methodology	DCF/SOTP	Val'n (A\$)	\$ 2.19	
Divisional sales	0.0	24.3	31.7	32.2	32.2	Valuation summary	A\$m	A\$ps	DCF valuation inputs	
Total revenue	2.3	26.7	34.2	34.7	34.8	Cracow Mine	82.0	0.43	Rf 5.75%	
EBITDA	-2.6	12.5	19.7	20.0	21.0	Exploration	18.7	0.10	Rm-Rf 4.50%	
Depreciation & amortisation	0.0	-4.7	-4.9	-5.0	-5.0	Total operations	100.7	0.53	Beta 1.19	
EBIT	-2.6	7.8	14.8	15.0	16.0	Investments	182.6	0.96	CAPM (Rf+I) #NAME?	
Net interest expense	0.0	0.0	0.0	0.0	0.0	Funds & Other	93.7	0.49	Tax rate (t) 30.0%	
Pre-tax profit	51.7	7.8	14.8	15.0	16.0	Net cash	42.0	0.22	WACC 9.10%	
Income tax expense	-8.0	-1.9	-3.7	-3.7	-4.0	Total Valuation	418.9	2.19	Shares 191.0	
After-tax profit	43.7	5.8	11.1	11.2	12.0	Production (Mt)	2007A	2008F	2009F	2010F
Minority interests	0.0	0.0	0.0	0.0	0.0	Gold production (koz)	33.91	35.15	35.72	35.72
NPAT	43.7	5.8	11.1	11.2	12.0	Cash costs (A\$/oz)	284.76	279.12	281.80	281.80
Significant items	0.0	0.0	0.0	0.0	0.0	Total costs (A\$/oz)	424.76	419.12	421.80	421.80
NPAT post abnormals	43.7	5.8	11.1	11.2	12.0	Key assumptions	2007A	2008F	2009F	2010F
Growth ratios	2006A	2007A	2008F	2009F	2010F	USD / AUD exchange rate	0.78	0.90	0.90	0.90
Sales growth			30%	2%	0%	Gold price (US\$/oz)	646.29	800.00	800.00	800.00
Operating cost growth			2%	2%	-9%	Silver price (US\$/oz)	13.14	15.06	13.95	13.00
Cash flow statement	2006A	2007A	2008F	2009F	2010F	Per share data	2007A	2008F	2009F	2010F
EBITDA	-2.6	12.5	19.7	20.0	21.0	No. shares	196.8	196.8	196.8	196.8
Cash flow from ops (1)	-4.3	10.6	16.0	16.2	17.0	EPS (cps)	3.0	5.6	5.7	6.1
Capex (2)	0.0	0.0	0.0	0.0	0.0	EPS (normalised) (c)	3.0	5.6	5.7	6.1
Disposals/(acquisitions)	0.0	-89.0	0.0	0.0	0.0	Dividend per share (c)	10.0	10.0	10.0	10.0
Cash flow from invest (3)	55.1	-89.0	0.0	0.0	0.0	Dividend payout ratio (%)	336.7	177.5	175.0	163.6
Incr/(decr) in equity	0.0	89.0	0.0	0.0	0.0	Dividend yield (%)	5.7	5.7	5.7	5.7
Incr/(decr) in debt	0.0	0.0	0.0	0.0	0.0	Operating performance	2007A	2008F	2009F	2010F
Ordinary dividend paid	0.0	-19.7	-19.7	-19.7	-19.7	EBIT growth	n.m.	90%	1%	7%
Other financing cash flow	0.0	0.0	0.0	0.0	0.0	NPAT growth	-87%	90%	1%	7%
Cash flow from fin (5)	-10.0	69.3	-19.7	-19.7	-19.7	Pre-goodwill NPAT growth	-87%	90%	1%	7%
Forex and disc ops (6)	0.0	0.0	0.0	0.0	0.0	Pre-goodwill EPS growth	-93%	90%	1%	7%
Inc/(decr) cash (1+3+5+6)	40.8	-9.1	-3.7	-3.4	-2.7	Normalised EPS growth	-93%	90%	1%	7%
Equity FCF (1+2)	-4.3	-4.3	-4.3	-4.3	-4.3	Asset turnover (%)	2.3	2.3	2.3	2.3
Balance sheet	2006A	2007A	2008F	2009F	2010F	EBITDA margin (%)	51.5	51.5	51.5	51.5
Cash & deposits	73.4	64.4	60.7	57.3	54.6	EBIT margin (%)	32.0	32.0	32.0	32.0
Trade debtors	0.6	0.6	0.6	0.6	0.6	Net profit margin (%)	24.0	24.0	24.0	24.0
Inventory	0.0	0.0	0.0	0.0	0.0	Return on net assets (%)	2.8	2.8	2.8	2.8
Investments	148.6	148.6	148.6	148.6	148.6	Net debt (A\$m)	-64.4	-64.4	-64.4	-64.4
Other intangible assets	0.0	0.0	0.0	0.0	0.0	Net debt/equity (%)	-23.0	-23.0	-23.0	-23.0
Fixed assets	0.0	84.3	79.3	74.3	69.3	Net interest/EBIT cover (x)	n.m.	n.m.	n.m.	n.m.
Other assets	0.1	0.1	0.1	0.1	0.1	ROIC (%)	3.9	4.6	4.8	5.2
Total assets	222.8	297.9	289.3	280.9	273.3	Comparable multiples (x)	2007A	2008F	2009F	2010F
Interest bearing debt	0.0	0.0	0.0	0.0	0.0	Lion Selection	EV/EBITDA	2.0	2.2	2.2
Trade payables	2.5	2.5	2.5	2.5	2.5	Year to 31 Jul	PE	31.1	30.6	28.6
Long-term borrowings	0.0	0.0	0.0	0.0	0.0	Heemskirk Consolidated	EV/EBITDA	10.8	5.9	5.4
Provisions	10.6	10.6	10.6	10.6	10.6	Year to 30 Sep	PE	18.3	11.0	11.7
Other liabilities	5.4	5.4	5.4	5.4	5.4	Equigold NL	EV/EBITDA	13.8	4.3	4.3
Total liabilities	18.6	18.6	18.6	18.6	18.6	Year to 30 Jun	PE	40.9	12.7	13.4
Share capital	100.1	189.1	189.1	189.1	189.1	Earnings Sensitivity	NPV \$ps	2008F	2009F	2010F
Other reserves	0.0	0.0	0.0	0.0	0.0	Gold sensitivity (+10%)	0.07	2.30	2.33	2.33
Retained earnings	104.1	90.2	81.6	73.2	65.5	Gold sensitivity (+\$US10/oz)	0.01	0.29	0.29	0.29
Total equity	204.2	279.3	270.7	262.3	254.6	AUD sensitivity (+10%)	-0.06	-0.42	-2.12	-2.15
Minority interest	0.0	0.0	0.0	0.0	0.0	AUD sensitivity (+1c)	-0.01	-0.05	-0.24	-0.24
Total shareholders' equity	204.2	279.3	270.7	262.3	254.6					
Total liabilities & SE	222.8	297.9	289.3	280.9	273.3					

Valuation sensitivity to discount rate (A\$/share)



Total revenues and EBIT (A\$m)



Source: Company data, ABN AMRO Morgans forecasts

Recommendation structure

Absolute performance, short term (trading) recommendation: A Trading Buy recommendation implies upside of 5% or more and a Trading Sell indicates downside of 5% or more. The trading recommendation time horizon is 0-60 days. For Australian coverage, a Trading Buy recommendation implies upside of 5% or more from the suggested entry price range, and a Trading Sell recommendation implies downside of 5% or more from the suggested entry price range. The trading recommendation time horizon is 0-60 days.

Absolute performance, long term (fundamental) recommendation: The recommendation is based on implied upside/downside for the stock from the target price. A Buy/Sell implies upside/downside of 10% or more and a Hold less than 10%. For listed property trusts (LPT) or real estate investment trusts (REIT) the recommendation is based upon the target price plus the dividend yield, ie total return. This structure applies to research on Asian and European stocks published from 1 November 2005; on Australian stocks from 7 November 2006; on continental European small and mid cap stocks from 23 November 2006; and on Brazilian stocks from 18 June 2007.

Performance parameters and horizon: Given the volatility of share prices and our pre-disposition not to change recommendations frequently, these performance parameters should be interpreted flexibly. Performance in this context only reflects capital appreciation and the horizon is 12 months.

Sector relative to market: The sector view relative to the market is the responsibility of the strategy team. Overweight/Underweight implies upside/downside of 10% or more and Neutral implies less than 10% upside/downside.

Target price: The target price is the level the stock should currently trade at if the market were to accept the analyst's view of the stock and if the necessary catalysts were in place to effect this change in perception within the performance horizon. In this way, therefore, the target price abstracts from the need to take a view on the market or sector. If it is felt that the catalysts are not fully in place to effect a re-rating of the stock to its warranted value, the target price will differ from 'fair' value.

Asset allocation: The asset allocation is the responsibility of the economics team. The recommended weight (Over, Neutral and Under) for equities, cash and bonds is based on a number of metrics and does not relate to a particular size change in one variable.

Stock borrowing rating: The stock borrowing rating is the subjective view and responsibility of the ABN AMRO equity finance team: Easy implies ready availability. Moderate implies some availability. Hard implies availability is tight. Impossible implies no availability.

Distribution of recommendations

The tables below show the distribution of ABN AMRO's recommendations (both long term and trading). The first column displays the distribution of recommendations globally and the second column shows the distribution for the region. Numbers in brackets show the percentage for each category where ABN AMRO has an investment banking relationship.

Long Term recommendations (as at 06 Dec 2007)		
	Global total (IB%)	Asia Pacific total (IB%)
Buy	598 (15)	394 (4)
Add	1 (0)	1 (0)
Hold	430 (19)	258 (4)
Reduce	0 (0)	0 (0)
Sell	75 (4)	53 (0)
Total (IB%)	1104 (16)	706 (3)

Trading recommendations (as at 06 Dec 2007)		
	Global total (IB%)	Asia Pacific total (IB%)
Trading Buy	6 (0)	6 (0)
Trading Sell	0 (0)	0 (0)
Total (IB%)	6 (0)	6 (0)

Valuation and risks to target price

Lion Selection (RIC: LST.AX, Rec: Buy, CP: A\$1.750, TP: A\$2.047): We use a combined DCF/SOTP valuation for LST. Until the potential acquisition of the remaining 70% of Cracow is finalised, we derive our target price based on LST's reported NTA as at October 31. LST is subject to risks associated with minerals exploration, development and production, but this is minimised through the diversification of companies and geographic regions. There are also the risks associated with the individual investee companies, as they move from development through to operating risks.

Regulatory disclosures

Subject companies: **LST.AX**

An analyst or a member of any analyst's household who participated in the preparation of this report has a shareholding/financial interest in this company: **LST.AX**

Global disclaimer

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