

Mining boss prefers Peru to profit tax

Luke Forrestal

In his new role as vice-chairman of Hong Kong-based China Sci-Tech Holdings, veteran mining executive Owen Hegarty is making his way through Asia, Europe and the United States trying to raise \$US1 billion (\$1.2 billion) to fund the company's plans to establish itself as a copper miner.

But it hasn't been easy, particularly given that one of the main projects in China Sci-Tech's plans is the Lady Annie copper mine in Queensland, an operation that would fall subject to the federal government's controversial 40 per cent resource super profits tax.

Mr Hegarty says that while potential investors are comfortable with China Sci-Tech's \$C244.5 million (\$277.3 million) acquisition of Chariot Resources, a Canadian copper explorer focused on Peru, the same can't be said of its deal to buy Lady Annie from Cape Lambert Resources.

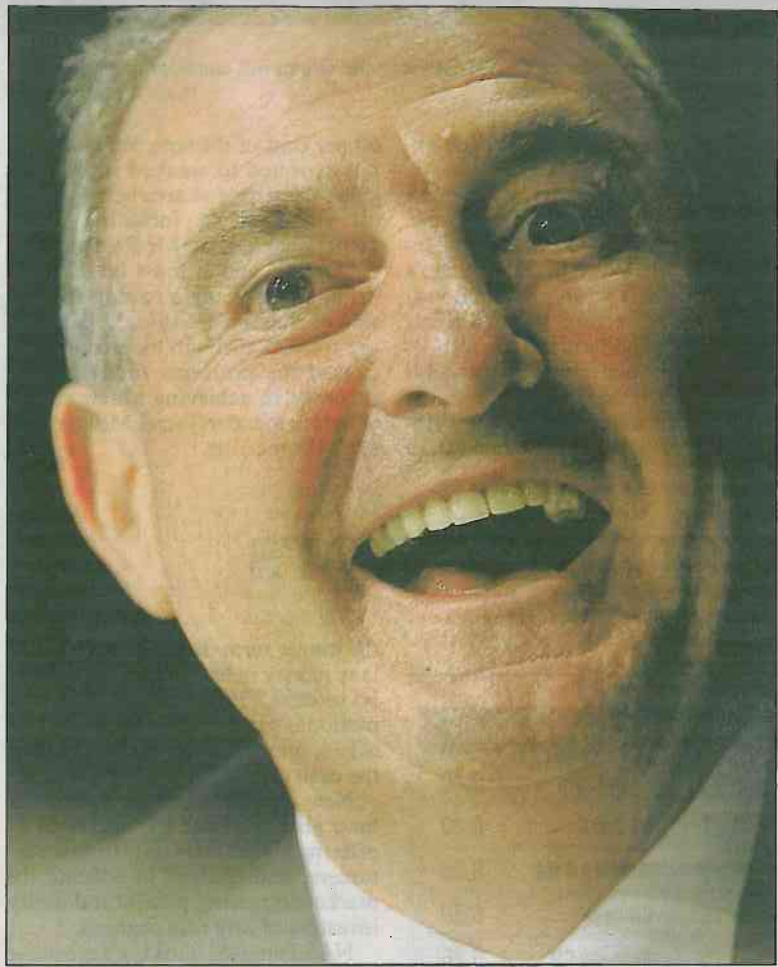
In every meeting on the roadshow to date, Mr Hegarty said the first question has related to the tax and how the \$135 million Lady Annie transaction will be affected.

"They've been saying 'Peru, we love Peru. Great mining country. Australia, up until a week ago was pretty good as well, but what have they done?'" he said.

"It's a serious question mark in people's minds from the particular sense in terms of this transaction, to the general sense in terms of what's going on in Australia with sovereign risk."

Mr Hegarty's experience on the capital-raising trail lends weight to claims made by Fortescue Metals Group chief executive Andrew Forrest that financiers are losing interest in Australian projects because of the proposed tax.

Mr Forrest made the claims in shelving \$17 billion worth of iron ore expansion projects in Western Australia last week. He said the company has determined that its debt-financing strategy for the



'Kicked in the guts by tax' ... China Sci-Tech chief Owen Hegarty. Photo: JESSICA SHAPIRO

projects would not be viable under the new tax regime.

China Sci-Tech's intention is to proceed with the Lady Annie acquisition as proposed.

The tax changes do not take away from the fact that it is a good asset and it would give the Hong Kong company a valuable operating base in Australia, Mr Hegarty said.

"It gives you that access to all of that Aussie group of professionals that you can run off in other parts of Australia, Asia and the rest of the world," he said. "So it's an important acquisition for us, but the fact that it's just been kicked in the guts by the tax is a downer."

China Sci-Tech, which previously focused on property and financial services, expects to finalise the Lady Annie and Chariot Resources acquisitions in the next week or so.

Toronto-listed Chariot has a 70 per cent stake in the Mina Justa copper project in Peru, which Mr Hegarty said is likely to be

allocated more capital than Lady Annie in light of the proposed tax changes. "If there's a choice, if you've got \$20 million to spend on exploration or development, of course you would [spend it in Peru]," he said.

"Peru is much more mining friendly because you have a 30 per cent tax rate versus 57 per cent in Australia [under the RSPT]."

Peru could also draw iron ore investment dollars away from Australia, Mr Hegarty believes.

"Some of the iron ore projects that are back up in the Andean Plateau that were next generation projects, they've just received a very significant boost," he said.

Mr Hegarty's involvement with China Sci-tech goes back to last year when it sold the Martabe gold project in Indonesia to his company, G-Resources. He joined the board of China Sci-Tech in March after advising the company on the Lady Annie deal.