

HKEx GUIDANCE LETTER
HKEx-GL52-13 (March 2013) (Updated in July 2013)

Subject	Disclosure in listing documents for mineral companies applicants that the Exchange normally expects and to address comments raised by the Exchange and the SFC in the vetting of previous listing applications
Listing Rules and Regulations	Main Board Rules 2.13(2), 11.07 and Chapter 18 GEM Rules 14.08(7), 17.56(2) and Chapter 18A
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Important note: *This letter does not override the Listing Rules and is not a substitute for advice from qualified professional advisers. If there is any conflict or inconsistency between this letter and the Listing Rules, the Listing Rules prevail. You may consult the Listing Department on a confidential basis for an interpretation of the Listing Rules or this letter. Defined terms in this letter have the same meaning as those used in Chapter 18 of the Main Board Rules (Chapter 18A of the GEM Rules).*

1. Background and Purpose

- 1.1 This letter is intended to assist applicant mineral companies by giving guidance for better preparation of listing documents under Chapter 18 of the Main Board Rules (Chapter 18A of the GEM Rules).
- 1.2 Chapter 18 of the Main Board Rules (Chapter 18A of the GEM Rules) was revised and became effective on 3 June 2010. Since May 2012, the Exchange has reviewed the operation of the revised Chapter 18 of the Main Board Rules (Chapter 18A of the GEM Rules) by looking at the vetting process and comments from the Listing Committee, the Listing Department, the SFC, market practitioners and industry experts, and has identified certain disclosure deficiencies commonly found in draft listing documents.
- 1.3 The Exchange expects applicants to follow this letter when preparing their listing applications. A listing document that does not follow this guidance may be considered not substantially complete as required under the Listing Rules (*Updated in July 2013*).

2. Relevant Rules

- 2.1 Main Board Rule 2.13(2) (GEM Rule 17.56(2)) provides that the information contained in the listing document must be accurate and complete in all material respects and not be misleading or deceptive.
- 2.2 Main Board Rule 11.07 (GEM Rule 14.08(7)) sets out an overriding general duty of disclosure in a listing document.
- 2.3 Chapter 18 of the Main Board Rules (Chapter 18A of the GEM Rules) sets out the

content requirements for the listing document of an applicant mineral company in addition to the information required under Appendix 1A to the Main Board Rules (Appendix 1A to the GEM Rules).

3. Guidance

- 3.1 The Exchange suggests that the following disclosures be made in the listing documents which fall under Chapter 18 of the Main Board Rules (Chapter 18A of the GEM Rules) (where applicable):

“Summary” section

- 3.2 An overview of the Mineral or Petroleum Assets, including the location, main products and by-products generated, a summary of the Reserves and Resources by category under a Reporting Standard, the grade(s) and quality of an applicant’s Natural Resources with reference to applicable industry standards, the mining/recovery method, the life of the mines/oilfields, the current status and future plan, and the cash operating and production costs of the minerals or Petroleum produced, in tabular format, as extracted from the Competent Person’s Report, where applicable.
- 3.3 The salient terms of the mining and exploration licences in tabular format, such as the identity of each of the licence holders, the grant and expiry dates of the licences, and the particular Natural Resources which the licences are related to.
- 3.4 The access of an applicant’s mines/oilfields to major transportation networks.
- 3.5 The revenue, sales volume and average selling price of each major product during the track record period.
- 3.6 An applicant’s mining rights which are pledged to secure its banking facilities, if any.
- 3.7 The risk associated with an applicant’s capital expenditure projects if the expected capital expenditure is significantly more than its IPO proceeds.

Competent Person’s Report and related disclosure

- 3.8 The cut-off grade, minimum mining width, economic parameters (e.g. waste to ore ratio, stope productivity), specific gravity derivation, prevailing metal/product price assumptions, and whether the cut-off grade used in the Competent Person’s Report is an industry standard commonly used by experts for the type of mine which is the subject matter of the Competent Person’s Report.
- 3.9 If the Competent Person and the applicant have different views over certain assumptions (e.g. processing recovery rate) adopted by the applicant, both views should be disclosed in the listing document, with differences highlighted, or explanation be provided as to why the applicant takes a different view and the impact on the applicant if the more conservative view is taken.
- 3.10 Detailed analysis for harmful elements identified at mines (e.g. mercury or arsenic identified at lead and zinc mines) to give a better picture of whether there are material concentrations of these elements within particular lodes, given that these elements can materially affect the saleability of the minerals.

- 3.11 Clear and meaningful drawings and diagrams, shown to scale, of the location of the applicant's principal Mineral or Petroleum Assets.
- 3.12 Reserves
- (i) The procedures, amount of testing, assessment and time required to ascertain the amount of Reserves.
 - (ii) The existing Reserves of the mine over its entire mine life, expected average Resource and Reserve grades of ore that can be extracted in future years (preferably covering the whole economic life of the mine), depletion charges and hedging activities.
- 3.13 Net present value (“NPV”)
- (i) Clarification as to whether the historical or the expected improved recovery rate is used for estimating the NPV.
 - (ii) The basis on which the discount rates are considered appropriate.
- 3.14 Whether the Competent Person has performed a site visit and verification on information provided by the applicant. If not, the main text of the listing document should disclose the bases on which the Reserves/Resources, cost forecasts and other data relating to the mines/oilfields as disclosed in the Competent Person's Report are arrived at, how the lack of a site visit would affect the reliability of the information, and an appropriate risk factor¹.
- 3.15 The listing document should disclose all material risks mentioned in the Competent Person's Report in the “Risk Factors” section. Whether an applicant has taken/will take action to address key recommendations mentioned in the Competent Person's Report should be disclosed in the main body of the listing document.

“Business” section

- 3.16 Project development
- (i) Construction details by key stages (e.g. different stages of the planned development) leading to commercial production with the assistance of flow diagram or a summary table.
 - (ii) Options available to an applicant (e.g. capital expenditure staging options, joint development options, cost-cutting strategies and financing options) in the event of upside and downside market developments.
- 3.17 Workflow/Production
- (i) A workflow diagram for each of the major steps/processes for an applicant's business (from excavation to product delivery), with a general indication of the time involved in each step/process and whether any of the process is/will be

¹ The Exchange would expect the sponsor to submit the basis that the Competent Person considers unnecessary to perform any facility or onsite investigation and no verification work is required.

outsourced to contractors.

- (ii) Designed capacities, permitted production volume and actual production volume of the mines, oilfields and/or the production plants, the utilisation rates of the production plants, in tabular format, during the track record period and commentary on material fluctuations.
- (iii) Reasons and outstanding liabilities for major accidents that took place during the track record period and up to the latest practicable date, and the internal controls to prevent recurrence of similar accidents.

3.18 Outsourcing arrangement

- (i) The number of contractors engaged by an applicant for each type of activities during the track record period, whether they are independent third parties, the criteria for selecting the contractors, and the total contracting fees incurred during the track record period.
- (ii) Salient terms of the agreements with contractors (e.g. the duration, the basis of determining the fees, the rights and obligations of each of the applicant and the contractors (including those related to accidents/fatalities/injuries in the course of the contractors' operations), credit and settlement terms, and fee adjustment, indemnity, termination and renewal clauses).
- (iii) Whether the contractors have obtained all licences/permits to conduct their activities, details of an applicant's internal controls to ensure that the contractors comply with all applicable rules and the contractual terms (e.g. occupational health and safety, environmental protection, validity of the licences).
- (iv) Availability of contractors providing similar services on similar terms, and how the applicant manages the risks associated with the outsourcing arrangement and reliance on the contractors.

3.19 Utilities

- (i) Any measures taken to secure stable and sufficient utility supplies for an applicant's existing and future business operations, whether the applicant is able to identify any alternative supplier at competitive prices, and salient terms of the utility contracts.
- (ii) How the utility fees charged to an applicant compares with the market rates charged to other users.
- (iii) Whether an applicant experienced any material disruptions as a result of shortage of utilities, including electricity and water, during the track record period and up to the latest practicable date, and the risk associated with the availability and stability of the supplies.

3.20 Sales/Product delivery

- (i) Salient terms of the sales agreements, if any, and whether those terms are in line with industry standards.

- (ii) Whether an applicant has experienced any shortage of transportation capacity for its products during the track record period and up to the latest practicable date, whether the existing transportation infrastructure is sufficient for the applicant's expansion and the associated risk, and the applicant's plans to secure sufficient access to the infrastructure.

3.21 Regulatory, environmental and social matters

- (i) A summary of all outstanding approvals and the current status of the relevant applications, any restriction on the renewal of exploration and mining permits, and the legal advisers' view on an applicant's ability to obtain/renew all relevant licences, permits and approvals for the proposed exploration and mining activities.
- (ii) Details of the regulations governing the provision of rehabilitation costs and reserves, how an applicant estimates the relevant provisions, and the relevant accounting treatment.
- (iii) Environmental impact of an applicant's mining/extracting activity and production process, and the measures taken or to be taken by the applicant to mitigate the adverse impact together with the time frame.
- (iv) Any weaknesses and deficiencies of an applicant's environmental management policies and if there are, how the applicant will address them.
- (v) Whether any local community concerns (e.g. potential pollution of local environment by the mining operation) have been properly addressed.
- (vi) Any operational and financial impact of new environmental regulations/programs, and the associated risk to an applicant.

3.22 Financial information

- (i) A sensitivity analysis on changes in the price of Mineral or Petroleum Assets, contracting fees, utility expenses and transportation costs, where material, during the track record period and the forecast period
- (ii) A breakdown of production costs and total cash operating costs.
- (iii) The amounts of exploration expenses during the track record period and up to the latest practicable date, and how they were accounted for in an applicant's financial statements.
- (iv) The major assumptions adopted for the forecast operating costs.
- (v) The expected time when a project under development becomes self-sufficient in working capital and funding, and the amount of additional funding required to reach that level of self-sufficiency (*Updated in July 2013*).

Drafting

- 3.23 The listing document, including the Competent Person's Report, should address the following, **where applicable**, for ease of understanding:
- (i) avoid using the word "*mine*" to describe projects which are still at an early stage of development or exploration work;
 - (ii) explain qualitative descriptions used, such as "*high estimates*", "*low estimates*" and "*best estimates*" for Reserves and Resources;
 - (iii) where estimates are disclosed, they should be sensibly rounded to avoid an unrealistic indication of accuracy; and
 - (iv) ensure that consistent terminology is used throughout the listing document.

Note:

Please refer to Listing Decisions (<http://www.hkex.com.hk/eng/rulesreg/listrules/listdec/2013listdec.htm>) and Guidance Letters (<http://www.hkex.com.hk/eng/rulesreg/listrules/listguid/iporq/guidance1.htm>) related to mineral companies.
