~~HKEx~~ HKEX LISTING DECISION
~~HKEx~~HKEX-LD74-2013 (published in June 2013) (Withdrawn in September 2016)

[This listing decision has already been included in HKEX-LD92-2015]

Summary	
Name of Party	Company A – a Main Board listing applicant
Subject	Whether Company A has satisfactorily demonstrated that its principal mineral asset has a clear path to commercial production under Rule 18.07.
Listing Rules	Main Board Rules 18.04 and 18.07
Decision	Company A failed to demonstrate its compliance with Rule 18.07 as its plan to proceed to production with indicative dates and costs lacked plausibility and credibility.

FACTS

1. Company A was principally engaged in the exploration and the development of certain metal properties. Its principal mineral asset was at the exploration stage. Company A applied for a waiver from the minimum profits requirement under Rule 18.04 as it had not yet generated any profits.

2. Company A's first listing application was not approved by the Listing Committee due to, among others, concerns on (i) its experience in bringing any mineral project to a production stage given its past active acquisitions and disposals of projects and (ii) the early stage of the development of the project.

3. Company A completed a pre-feasibility study for the project and re-submitted its listing application. In the second listing application, Company A had delayed most of the original development plan by more than two years and substantially revised the economic estimates of the project. The total capital cost for the project increased by 134%, with the estimated mine life reduced from 17 years to nine years with a payback period of seven years. The project's internal rate of return is 6.7%

4. The competent person's report indicated that the risk concerning the project payback period is "HIGH" as the project is highly sensitive to variations in commodity pricing of the relevant metal and changes in operating costs,

capital expenditure and any delays or variations to the forecast production schedule.

5. The sensitivity analysis revealed that a 10% adverse change in the metal prices, the operating costs or the capital costs would force the pre-tax net present value of the project to a negative.

6. Based on Company A's financing plan, it would need to undertake about 12 more post-listing equity fund raisings of a similar scale of the proposed IPO to bring the project to production stage.

7. Company A only had limited cash balance and had no available banking facility. Company A expected that new banking facilities will be obtained at the time when the project has completed its bankable feasibility study.

8. Company A is subject to indigenous claims or disputes from some indigenous groups and the provincial government will only approve or reject the project after consulting with the indigenous groups. Moreover, Company A might require additional permits from other governmental agencies due to the location of the project.

APPLICABLE RULES AND PRINCIPLES

9. Rule 18.04 states that "*if a Mineral Company is unable to satisfy either the profit test in rule 8.05(1), … , it may still apply to be listed if it can establish to the Exchange's satisfaction that its directors and senior managers, taken together, have sufficient experience relevant to the exploration and/or extraction activity that the Mineral Company is pursuing.*"

10. HKEx Guidance Letter HKEx-GL22-10 and paragraph 6 under the Executive Summary of Consultation Conclusions on New Listing Rules for Mineral Companies published in May 2010 state that mineral companies which do not satisfy the minimum profits requirements under Rule 8.05(1), but are applying to list under Rule 18.04 must demonstrate a clear path to commercial production.

11. Rule 18.07 states that if a mineral company has not yet begun production, it must disclose its plans to proceed to production with indicative dates and costs.

THE ANALYSIS

12. Based on the new information provided in Company A's renewed listing application which was revised substantially as a result of the completion of the pre-feasibility study and having considered the totality of Company A's facts and circumstances, in particular:

(i) the high risk concerning the project payback period as the project is highly sensitive to variations in commodity pricing, operating cost, the estimated lengthy pay-back period and low internal rate of return;

(ii) the serious concerns on whether the Company would be able to secure adequate finance to fund its project to the stage of commercial production, as indicated from the overly ambitious funding plan as Company A would need to undertake 12 more post-listing equity fund raisings of a similar scale of the proposed IPO to bring the project to production stage; and

(iii) the high uncertainty of indigenous rights which have direct impact on whether Company A would be able to obtain necessary permits and licenses,

the Exchange had serious doubt on whether Company A would be able to bring its mineral project to the stage of commercial production according to the plan disclosed in the draft prospectus.

DECISION

13. The Exchange considered that Company A has not satisfactorily demonstrated that its project has a clear path to commercial production under Rule 18.07. This would consequently mean that Company A cannot comply with the minimum profits requirement under Rule 8.05(1) ("**Decision**").

14. Company A applied for a review of the Decision and the Listing (Review) Committee determined that Company A's plan in accordance with Rule 18.07 to proceed to production with indicative dates and costs lacked plausibility and credibility.