

~~HKE~~HKEX GUIDANCE LETTER

~~HKE~~HKEX-GL52-13 (March 2013) (Updated in July 2013 and February 2020)

Subject	<u>Guidance for Mineral Companies 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</u>
Listing Rules and Regulations	Main Board Rules 2.13(2), <u>8.05, 11.07 and</u> , Chapter 18 <u>and paragraph 41(6) of Appendix 1A</u> GEM Rules 14.08(7), <u>17.56(2) and</u> , Chapter 18A <u>and paragraph 41(2) of Appendix 1A</u>
Related Publications	<u>Consultation Paper on New Listing Rules for Mineral and Exploration Companies published in September 2009 (“2009 Consultation Paper”)</u> <u>Consultation Conclusions on New Listing Rules for Mineral Companies published in May 2010 (“2010 Consultation Conclusions”)</u>
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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 shall prevail. You may consult the Listing Department Division 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), or this letter.*

**1. ~~Background and Purpose~~**

~~1.1. This letter is intended to assist applicant mineral companies by giving~~provides guidance ~~for better preparation of to new applicants which are Mineral Companies on (i) disclosure in listing documents under; (ii) application of Main Board Rule 18.04; (iii) adoption of alternative reporting standard and other disclosure matters for Petroleum Resources and Reserves; and (iv) inclusion of Competent Person’s Report (“CPR”) in the listing document.~~

~~1.1.1.2.~~ Appendix 1 to this letter sets out a list of frequently asked questions, including questions about post-listing compliance matters of 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**).~~

~~1.4.1.3. Unless otherwise defined, capitalised 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. 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).~~

## ~~2. Disclosure in listing documents (**Updated in February 2020**)~~

~~1.5.2.1. We expect the following disclosure, where applicable and material, to be made in listing documents.~~

## ~~2. Guidance~~

~~1.1. 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):~~

### ~~1.6.2.2. “Summary” section~~

~~(i) An overview of the Mineral or Petroleum Assets, including the location, main products and by-products generated, and a summary of the Reserves and Resources and/ or exploration results by category under a Reporting Standard, the grade(s) and quality of anthe applicant’s Natural Resources with reference to applicable industry standards;~~

~~(ii) the mining/recovery method, the life of the mines/ oilfields, the current status and future development plan, the access of mines/ oilfields to major transportation networks, and mining rights which are pledged to secure the applicant’s banking facilities or a negative statement;~~

~~(i) and in tabular format, (a) 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; (b) the material salient terms of the mining and exploration licenses in tabular format, such as the identity of each of the licensee license holders, the grant and expiry dates of the licenses validity period, the approved production volume, and the particular Natural Resources which the licenses licenses are related to.~~

~~1.2. The access of an applicant's mines/oilfields to major transportation networks.~~

~~(ii)(iii) The; and (c) the revenue, production volume, sales volume and average selling price of each major product during the track record period; and~~

~~1.3.~~

~~1.4. An applicant's mining rights which are pledged to secure its banking facilities, if any.~~

~~1.5. the risk associated with an the applicant's capital expenditure projects if the expected capital expenditure is significantly more than its IPO proceeds.~~

~~(iii)(iv)~~

~~1.7.2.3. **Competent Person's Report CPR and related disclosure**~~

~~(i) The the cut-off grade, (which should be an industry standard commonly used), 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 commodity price assumptions;~~

~~(ii) If if the Competent Person and the applicant have has a different views overview on certain assumptions (e.g. processing recovery rate) adopted made by the applicant, both views should be disclosed in the listing document, with differences highlighted, or explanation be provided as to why and underlying reasons for the applicant takes a different view views, and the impact on the applicant if the more conservative view is taken adopted;~~

~~(iii) Detailed 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 and the impact on the saleability of the minerals;~~

~~(iv) Clear clear and meaningful drawings and diagrams, shown to scale, of the location of the applicant's principal Mineral or Petroleum Assets;~~

~~1.6. Reserves(i)~~

~~(v) (ii) The The the procedures, amount of testing, assessment and time required to ascertain the amount of Reserves, and 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;

#### 1.7. ~~Net present value (“NPV”)~~

~~(i) Clarification as to~~

(vi) ~~(ii) whether the historical or the expected improved recovery rate is used for estimating the NPV. The net present value (“NPV”), and the basis on which the discount rates are considered appropriate;~~

(vii) ~~Whether if the Competent Person has performed~~did not conduct~~ a site visit and verification on information provided by, the applicant. ~~If not, the main text should disclose in the “Business” section of the listing document should disclose the bases~~basis on which the Reserves/\_Resources, cost forecasts and other data relating to the mines/\_oilfields as disclosed in the Competent Person’s Report~~CPR~~ are arrived at, how the lack of a site visit would affect the reliability of the information, and an appropriate risk factor<sup>4</sup>. The sponsor should also submit to the Exchange the basis that the Competent Person considers unnecessary to perform verification work by conducting any facility or onsite investigation;~~

~~(viii) The listing document should disclose all material risks mentioned in the Competent Person’s Report~~CPR~~ should be disclosed in the “Risk Factors” section. ~~Whether an applicant has~~ of the listing document; and~~

~~(viii)(ix) measures taken/\_will take action be taken by the applicant to address key recommendations mentioned in the Competent Person’s Report~~CPR~~ and the corresponding time frame should be disclosed in the ~~main body~~“Business” section of the listing document.~~

#### 1.8.2.4. “Business” section

(i) Project development

(a) ~~(i) Construction~~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.; and~~

~~(ii) Options available to an options in the event of upside and downside market developments.~~

(b) how the applicant manages any upside and downside market developments (e.g. capital expenditure staging ~~options~~, joint development ~~options~~, cost-cutting strategies and financing);

(ii) Workflow/Production production

(a) A workflow diagram for each of the major steps/\_processes for ~~an~~the applicant’s business (from excavation to product delivery), with a

<sup>4</sup> ~~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.~~

general indication of –the time involved in each step/\_process and whether any of the process is/\_will be outsourced to contractors-;

- (b) ~~(ii) — Designed~~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-; and

~~(iii) —~~

- (c) ~~Reasons~~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.

(iii) Outsourcing arrangement

~~(i) — The number of~~Material information on contractors engaged by ~~an~~the applicant for each major type of mining 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 for each major type of activities, the number of contractors engaged by the applicant and total contracting fees incurred during the track record period, whether they are independent third parties, selection criteria, 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 compliance with the relevant licensing/ qualification requirements, the applicant's relevant internal ~~controls~~control measures 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. licenses).~~

(iv) Utilities

~~(ii) — How the utility fees charged to an applicant compares with the market rates charged to other users.~~

- (a) ~~(i) Any measures taken to secure~~whether utility supplies were/ will be 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. (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 for the applicant's business operations, and if not, disclose the associated with the availability and stability of the supplies.~~ risks and measures taken to address this issue; and

(b) if utilities are not charged at market rates, explain material differences and reasons therefor.

(v) Sales/~~Product~~ 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 not sufficient for the applicant's expansion and, disclose the associated risk, risks and the applicant's plans to secure sufficient access to the infrastructure.

(vi) Regulatory, environmental and social matters

(a) ~~(i) A~~ 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 (with basis) on anthe applicant's ability to obtain/ renew all relevant ~~licences~~ licenses, permits and approvals for the proposed exploration and mining activities.;

(b) ~~Details~~ details of ~~the~~ any requirement to rehabilitate the affected environment and regulations governing the provision of rehabilitation costs and reserves, how anthe applicant estimates the relevant provisions, and the relevant accounting ~~treatment~~ treatments;

(c) ~~Environmental~~ environmental impact of anthe applicant's mining/ extracting activity and production ~~process~~ processes, and ~~the~~ measures taken ~~or/~~ to be taken by the applicant to mitigate the adverse impact ~~together with the~~ and under what time frame.;

~~(d) Any weaknesses and deficiencies of anthe applicant's environmental management policies and if there are, / measures, and how and when they have been/ will be addressed;~~

~~(d)(e) how the applicant will addresses them Whether any local community's~~ concerns (e.g. potential pollution of local environment by the mining operation) have been properly addressed.;

and

~~(e)(f) Any operational and financial impact of new~~ newly introduced or pending environmental regulations/ programs, and the associated risk to an applicant risks.

#### 4.9.2.5. “Financial information” section

- (i) ~~(i) — Aa sensitivity analysis on the impact of changes in the price of Mineral or Petroleum Assets, contracting fees, utility expenses and transportation costs, wherein each case if material, on the applicant’s financial results during the track record period and the forecast period;~~
- (ii) ~~Aa breakdown of production costs and total cash operating costs; and the major assumptions adopted for the forecast 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;~~ and
- ~~(ii) — The major assumptions adopted for the forecast operating costs.~~
- (iv) ~~The~~ expected time when a project under development becomes self-sufficient in terms of working capital and funding, and the amount of additional funding required to reach ~~that~~such level of self-sufficiency ~~(Updated in July 2013).~~

#### 4.10.2.6. Drafting

~~4.8. — The listing document, including the Competent Person’s ReportCPR, should address the following, **where applicable**, for ease of understanding:~~

- ~~(i) — (i) avoid using the word “mine” to describe projectsa project which are stillis at an early stage of development or exploration work;~~
- ~~(ii) — explain qualitative descriptions used, such as; and (ii) provide a benchmark for relative levels (e.g. “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/iporg/guidance1.htm>) related to mineral companies.~~

### 3. Exemption of Main Board Rule 8.05 provided under Main Board Rule 18.04 (“R18.04 Exemption”)<sup>2</sup> (Added in February 2020)

#### Background

<sup>2</sup> For the avoidance of doubt, Main Board Rule 18.04 exempts an applicant from complying with the profit test, market capitalisation/revenue/cash flow test and the market capitalisation/revenue test under Main Board Rule 8.05, which also include the management continuity and ownership and control requirements.

3.1. Since 1989, the Listing Rules have exempted Mineral Companies from compliance with the eligibility requirements under Main Board Rule 8.05 (“**R8.05 Requirements**”). Given that the nature of the industry is highly capital intensive with a relatively long development curve, applicants (especially those that are in their early years of development) may not be able to meet the R8.05 Requirements. Investors could practically participate in the evolution of value of a Mineral Company if the Mineral Company could list when it was still in its exploration and development stage.

3.2. To mitigate the higher risk investors are exposed to due to the uncertainty of the development of the mining projects for a Mineral Company, an applicant can rely on the R18.04 Exemption if it can meet the conditions in paragraphs 3.4 to 3.6 below.

**Path to commercial production**

3.3. The 2010 Consultation Conclusions stated that a Mineral Company must demonstrate a clear path to commercial production to qualify for the R18.04 Exemption. Although this concept was not codified in the Listing Rules, the Exchange has been applying it in practice.

3.4. To demonstrate a clear path to commercial production, the applicant must:

- (i) have conducted exploration and/ or development activities on some or all of its mining assets during part or all of the track record period (“**Pre-Production Mining Assets**”). This means that if all its mining assets were under production throughout the track record period, it cannot satisfy this condition and is required to meet the R8.05 Requirements;
- (ii) the Pre-Production Mining Assets must comprise a meaningful portfolio (in terms of quality and quantity) of Resources and Reserves; and
- (iii) present a detailed plan, with reasonable assumptions, to achieve profitable commercial production with respect to the Pre-Production Mining Assets. When assessing the feasibility of the plan, we will consider the following factors, as applicable:
  - (a) life of the mine with the Pre-Production Mining Assets and project payback period;
  - (b) the development/ production stage of the Pre-Production Mining Assets;
  - (c) the Competent Person’s view on the adequacy and reasonableness of the applicant’s mine plan, production schedule and/ or Pre-feasibility Study;
  - (d) commodity price and demand for the applicant’s products (e.g. binding commitments from existing/ potential customers);
  - (e) an estimate of cash operating costs and cost of proposed exploration and/ or development;
  - (f) feasibility of future fund raising (other than IPO) required to bring the project to the production; and

(g) the level of certainty as to whether the necessary mining permits and licenses will be obtained.

3.5. The applicant must disclose in the listing document details of the plan to provide investors sufficient information to perform an informed assessment on its value.

**Director and management experience**

3.6. Main Board Rule 18.04 (GEM Rule 18A.04) requires directors and management to have experience relevant to the exploration and/ or extraction activity that the Mineral Company is pursuing. Where the experience of the directors or management in commodities or minerals is different from the applicant's operations, the Exchange will consider:

- (i) whether such skills are transferable to the applicant's mining activities; and
- (ii) his/ her academic and professional qualifications, significant mining related achievements/ awards, and contribution to the mining industry and/ or any Mineral Companies.

**4. Petroleum reporting standard (Added in February 2020)**

**Other codes for Petroleum Resources and Reserves**

4.1. Pursuant to Main Board Rule 18.32(2) (GEM Rule 18A.32), the Exchange will consider the following factors in determining whether other codes for Petroleum Resources and Reserves will give a comparable standard of disclosure and sufficient assessment of the underlying assets ("Alternative Codes"):

- (i) whether the Alternative Code is well recognised internationally and comparable to the requirements of Chapter 18 of the Main Board Rules (Chapter 18A of the GEM Rules). For example, it was stated in the 2009 Consultation Paper that the Canadian Standards of Disclosure for Oil and Gas Activities ("NI 51-101") and the U.S. Securities and Exchange Commission's Oil and Gas Disclosure Standards are globally recognised yardsticks for making oil and gas evaluations; and
- (ii) why the applicant is adopting the Alternative Code instead of PRMS under Main Board Rule 18.32 (GEM Rule 18A.32). For example, the applicant is listed on an overseas exchange or operates in a jurisdiction where the Alternative Code is a filing requirement.

**Present NPVs on pre-tax and post-tax basis**

4.2. If an applicant discloses the NPVs attributable to its Proved Reserves and Proved plus Probable Reserves (and also Possible Reserves, Contingent Resources or Prospective Resources, subject to a waiver from Main Board Rule 18.33(6) (GEM Rule 18A.33(6)) as stated below), in addition to the post-tax presentation requirement under Main Board Rule 18.33(2) (GEM Rule 18A.33(2)), it may disclose the NPVs on pre-tax basis if such disclosure is required or allowed under a widely adopted reporting standard and is in line with disclosure made by its

comparable listed companies.

**Disclosure of economic values of Possible Reserves, Contingent Resources or Prospective Resources**

4.3. Main Board Rule 18.33(6) (GEM Rule 18A.33(6)) does not allow applicants to attach economic values to Possible Reserves, Contingent Resources or Prospective Resources because the measurement of such values usually lack a widely accepted industry standard and are estimated with high level of uncertainty.

4.4. The Exchange has in the past granted a waiver to an applicant from Main Board Rule 18.33(6) (GEM Rule 18A.33(6)) because:

(i) the applicant's Petroleum Resources were located in Canada and subject to NI51-101, which permits disclosure of estimates of both the volumes and values of all reserves and resources, including Possible Reserves, Contingent Resources and Prospective Resources. This applicant's disclosure was in line with disclosures made by its comparable companies listed in Canada; and

(ii) the existence of the applicant's Petroleum Resources (which was oil sand) was more certain than the typical Petroleum Resources such as oil, mainly because of the abundance of oil sand in the area where it operated, and the recoverability was largely within the applicant's control as it was mainly dependent upon the applicant's commitment to develop them.

**5. CPR (Added in February 2020)**

5.1. A Mineral Company applicant must established that it has at least a portfolio of Indicated or Contingent Resources substantiated in a CPR, which is required to be disclosed in the listing document under Main Board Rule 18.05(1) (GEM Rule 18A.05(1)).

5.2. The Exchange acknowledges that it may be unduly burdensome and impractical to require an applicant to include in its listing document a CPR for each and every Resource, irrespective of its size, plans for and stage of development or ownership status, and has in the past waived the requirement under Main Board Rule 18.05(1) (GEM Rule 18A.05(1)) and allowed certain applicants to exclude part of their mining assets in a CPR ("**Excluded Projects**") on the following basis:

(i) the Excluded Projects were not material to the applicant's portfolio of mineral/petroleum Resource; and

(ii) the applicant demonstrated that the necessary information for the preparation of a CPR was not available (e.g. the mine was at early exploration stage, or the applicant did not have the necessary information on the relevant entities or businesses which it planned to acquire or had an option to acquire).

5.3. If the relevant information for the preparation of a CPR is available, an applicant must include such information in the CPR. A waiver from Main Board Rule 18.05(1) (GEM Rule 18A.05(1)) in such case will only be granted under special circumstances. We have in the past granted a waiver to an applicant to exclude a

mine in the CPR, since the applicant had no intention or plan to develop such mine due to its insignificant size and lack of commercial value.

5.4. In the aforementioned cases, applicants who obtained waivers from disclosing the Excluded Projects in the CPR were required to, where applicable:

- (i) disclose in the listing document relevant material information, including the proposed terms of acquisitions such as the location and size of the Excluded Projects, expected mineral quality, proposed purchase consideration and expected development cost, for investors' assessment on the potential of the Excluded Projects and the likely benefit of the acquisitions;
- (ii) provide an update on the stage of development and the management's intention on the Excluded Projects in the annual reports in accordance with Main Board Rules 18.15 to 18.17 (GEM Rules 18A.15 to 18A.17), to enable investors understand the progress of acquisition/ the development of the part of the portfolio of resources that are not previously reported on by a competent person; and
- (iii) prepare and publish a CPR in accordance with the relevant requirements under Chapter 18 and Appendix 25 of the Main Board Rules (Chapter 18A and Appendix 18 of the GEM Rules) when the relevant information becomes available (e.g. when the applicant acquires the entities or businesses, or when the Excluded Projects are further developed).

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