

Chapter 18

EQUITY SECURITIES

MINERAL COMPANIES

Preliminary

18.01 The following special requirements apply to issuers whose activities (whether directly or through a subsidiary company) include exploration for or production of natural resources consisting of substances such as metal ores, mineral concentrates, industrial minerals, mineral oils, natural gases or solid fuels, as well as companies engaged in mining, extraction of hydrocarbons, quarrying or similar activities. (References herein to the issuer are to the issuer and its subsidiaries, if any, taken together as a group.)

Qualifications for Listing

18.02 An application for listing from a company whose current activities consist solely of exploration will not normally be considered, unless the issuer is able to establish:—

- (1) the existence of adequate economically exploitable reserves of natural resources, which must be substantiated by the opinion of an expert, in a defined area over which the issuer has exploration and exploitation rights;
- (2) an estimate of the capital cost of bringing the issuer into a productive position; and
- (3) an estimate of the time and working capital required to bring the issuer into a position to earn revenue.

18.03 These qualifications for listing are in addition to the basic conditions for listing set out in Chapter 8. However, the requirements of rule 8.05 may not apply if the Exchange is satisfied that the directors and management of the issuer ~~has adequate~~ have sufficient and satisfactory experience of at least three years in mining and/or exploration activities. Details of such experience must be disclosed in the listing document of the issuer.

Technical Adviser

18.04 An issuer whose activities include or are to include exploration for natural resources to a material degree must have available to it the technical advice of an independent person who has had appropriate experience in the type of exploration activity undertaken or proposed to be undertaken by the issuer.

Basis of Evidence

18.05 A statement made in any listing document or circular as to the existence of natural resources must be substantiated by the professional adviser from his own knowledge and supported by details of drilling results, analysis or other evidence.

18.06 If important evidence which must remain confidential for legal or other valid reasons has to be excluded from the listing document or circular, or the technical adviser's report included in them, the issuer must allow an independent consultant, mutually approved, to verify to the Exchange in confidence the importance of such evidence.

New Venture Listed Issuers

18.07 Where a listed issuer proposes to explore for natural resources as an extension to or change from its existing activities, a circular, which must include the information specified in rule 18.09, and in Chapter 14, where applicable, will be required to be sent to shareholders in either of the following circumstances:—

- (1) where the proposal involves a very substantial acquisition, a major transaction or a discloseable transaction as defined in Chapter 14; or
- (2) where the proposal involves a transaction which might be reasonably expected to result in either the diversion to exploration for natural resources of ~~10%33 per cent.~~ or more of the consolidated total net-assets of the listed issuer ~~to exploration for natural resources~~ or the contribution from such exploration of ~~10%33 per cent.~~ or more to the consolidated pre-tax operating profits or trading result-~~consolidated revenue~~ of the listed issuer as shown in its then latest published audited (consolidated) accounts. Any such transaction should be conditional on approval by the shareholders in general meeting.

18.08 In assessing the extent of diversification or the amount of contribution to the pre-tax operating profits and revenue~~trading result~~, account should be taken of any associated transactions or loans effected or intended and of any contingent liabilities or commitments. In case of doubt as to the application of the requirements, the Exchange should be consulted at the earliest opportunity.

Contents of Listing Documents of New Applicants and New Venture Listed Issuers

18.09 In the case of a new applicant whose activities include to a material extent exploration for natural resources, or an issue of securities by a listed issuer for which this is a new venture the listing document or circular must contain the following information in addition to that set out in Appendix 1:—

- (1) the full name, address, any professional qualification and relevant experience of the person whose technical advice is available to the issuer in relation to its exploration activities. This may be included in the adviser's report specified in (6) below;
- (2) a statement of the interests of each promoter or technical adviser in the share capital of the issuer together with the amounts of the holdings in question;
- (3) the general nature of the business of the issuer, distinguishing between different activities which are material having regard to the profits or losses, assets employed or any other factor affecting the importance of each activity. If the activities of the issuer take place to a material extent outside Hong Kong, a statement of the geographical location of the activities;
- (4) the nature and extent of the issuer's rights of exploration and exploitation and a description of the properties to which such rights attach, giving particulars of the duration and other principal terms of the concessions.

Where the issuer intends to carry out exploration for natural resources, a general description of the areas to be studied, the exploration techniques to be used and the technical staff to be employed should be given. A statement as to the issuer's rights, if any, over such areas and of the rights obtainable under existing legislation must be included;

- (5) in the case of proposed exploitation of mineral bodies, the nature and extent of the issuer's rights and a description of the properties to which such rights attach, giving particulars of the duration and other principal terms of the concessions or other rights. An estimate of proven exploitable reserves including as precise a description of the nature and quality of such reserves as the evidence allows and a statement of the economic conditions for working them;
- (6) a report by the technical adviser to the issuer with respect to the estimated reserves and the evidence on which the estimate is based, stating his name, address, professional qualifications and relevant experience. The report (made up to a date not more than six months prior to the issue of the listing document or circular) must be dated and should include adequate information on the following:—
 - (a) the number of holes drilled and their distribution;
 - (b) a statement describing very briefly the geological characteristics of the occurrence, the type of deposit, its dimensions and the grade of mineral; for fluid and/or gaseous deposits, the porosity and permeability characteristics of the reservoirs, the thickness of the net pay, the pressure of the fluid or gas within it and the recovery mechanism planned;
 - (c) an estimate of the proven reserves and the anticipated mining recovery and dilution factors or recovery factors with respect to oil and gas factors in place on a field by field basis together with the expected period of working;
 - (d) when the concession includes probable or possible reserves relevant to the long term future of the issuer this should be stated with a note on the type of evidence available. In isolated areas where no factual geological data has yet been obtained, possible reserves should be described by adjectives, not figures;
 - (e) the nature of any geophysical and geological evidence used in making reserve estimates and the name of the organisation that did the work;
 - (f) a statement on production policy; and
 - (g) an indication of the progress of actual working;
- (7) a statement setting out additional information where it is necessary for a proper appraisal of any special factors affecting the exploration business of the issuer, for example, difficulties of access to, or in recovery of, minerals on properties where the issuer has exploitation rights, or special economic, environmental, political or other circumstances surrounding their exploitation which may affect the commercial viability of the project;
- (8) in addition to the statement as to the sufficiency of working capital which is required to be given by the directors:—
 - (a) an estimate of the requirements of the issuer for funds for at least two years following the issue of the listing document or circular;
 - (b) where the issuer already has income, or expects to receive income during the period covered by this statement, particulars of the estimated cash flow for at least the two years following the issue of the listing document or circular; and

- (c) an estimate of the further finance required to enable the issuer to exploit its proven reserves and commence recoveries on a commercial scale, together with an estimate of the time needed to achieve this;
- (9) full particulars of the nature and extent of the interest, direct or indirect, if any, of every director, technical adviser or promoter named in the listing document or circular, in the promotion of, or in any assets which have been within the two years immediately preceding the issue of the listing document or circular acquired or disposed of by or leased to, the issuer or any of its subsidiaries including:—
 - (a) the consideration passing to and from the issuer or any of its subsidiaries; and
 - (b) short particulars of all transactions relating to any such assets which have taken place, or an appropriate negative statement; and
- (10) a statement of any claims in relation to exploration rights made or notified either by third parties against the issuer or vice versa, in the absence of such claims, an appropriate negative statement.

**Contents of Subsequent Listing Documents and
Circulars of Listed Companies**

18.10 In the case of a listed issuer whose activities include to a material extent exploration for natural resources, any listing document or circular required pursuant to Chapter 7 or rules ~~14.38, 14.41, 14.51 or 14.57~~14.07, 14.10 and 14.13 must contain the following items of information in addition to those set out in Appendix 1 and rules ~~14.16, 14.17 and 14.29~~14.63 to 14.70 (where applicable):—

- (1) a description of deposits, estimate of economically exploitable reserves and expected period of working;
- (2) an indication of the periods and main terms of concessions and the economic conditions for working them; and
- (3) indications of the progress of actual working.

Where the information has been influenced by exceptional factors, that fact must be mentioned.