



## FRONTIER SECURITIES MONGOLIA EXPERT SERIES - PRESENTATION

# Using Depositary Receipts for Foreign Listing and Fund Raising

### HIGHLIGHTS

Depositary Receipts (DRs) are mainstream instruments for listing on overseas stock exchanges and they represent an ownership in a foreign (non-US) company. Depositary Receipts are issued against the deposit of the issuer's domestic ordinary shares in the custody account of the depositary bank in the issuer's home market. Each depositary receipt is backed up by a specific number of an issuer's local shares (or a fraction), this number is called a DR Ratio. The ratio is designed to set the price of each DR in a price range competitive with the issuer's international peer group.

ADRs (American DRs) and GDRs (Global DRs) are widely used in privatization equity transactions in many markets around the world. ADRs are still the dominant form of DRs, though their growth is expected to stagnate. GDRs on the other hand have been growing and accounted for 50% of capital raised using DRs in 2006 vs. less than 1% in 2000. HDRs (Hong Kong DRs), introduced only in July 2008, are a new and effective route for companies (especially Mongolian) to list on the Stock Exchange of Hong Kong. Issuers which are expected to benefit from the new HDR framework include those incorporated in Mongolia, Japan, South Korea, India, Russia and Brazil.

Issuers benefit from DRs as they create, broaden and / or diversify the investor base to include investors in other capital markets, enhance visibility and global presence among investors, consumers and customers, offer new venues for raising capital, develop and increase research coverage of the company, increase liquidity of the issuer's shares and enable price parity with global peers. Issuers listing in an HDR form have to comply with the same listing regime as issuers listing in the form of an ordinary share. One of the basic listing requirements require listing companies to have a trading record of no less than three financial years and pass any one of the three specified tests – these tests are based on:-

#### Listing HDRs on the HKEx Main Board

Listing companies must have a trading record of no less than three financial years and pass ANY one of the following:

Profit Test	Aggregate Profits over three years equal to or greater than HK\$50mm (US\$6.4mm). <sup>1</sup> The market capitalization at the time of listing equal to or greater than HK\$200mm (US\$25.7mm)
Market Cap / Revenue Test	Market capitalization equal to or greater than HK\$4bn (US\$513mm) at the time of listing. Revenue in the most recent audited financial year must be at least HK\$500mm (US\$64.2mm)
Market Cap / Revenue / Cashflow Test	Market capitalization equal to or greater than HK\$2bn (US\$256mm) at the time of listing. Revenue in the most recent audited financial year must be at least HK\$500mm (US\$64.2mm) An aggregate positive cashflow from operating activities of at least HK\$100mm (US\$13mm) for the three preceding financial years

<sup>1</sup> At least HK\$20mm (US\$2.6mm) in profits needs to be recorded in the previous year and at least HK\$30mm (US\$3.8mm) in aggregate profits needs to be recorded over the two years before that

Source: HKEx official website

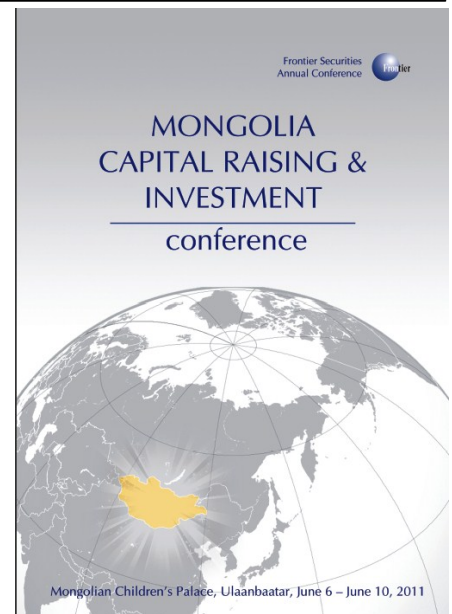
J.P. Morgan is the 1st and only depositary bank that developed the infrastructure to offer the HDR product. J.P. Morgan launched the first HDR for Vale in December 2010 via listing by introduction on HKEx and launched the 1st HDR IPO for SBI Holdings in April 2011.

### PRESENTER

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National Development and Innovation Committee  
Parliament of Mongolia  
State Property Committee  
TDB and TDB Capital

### Frontier Securities

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## J.P.Morgan



### ABOUT MR. KENNETH TSE

Mr. Kenneth Tse is J.P. Morgan's regional head of Depositary Receipts (DRs) in Asia Pacific. Based in Hong Kong, he is responsible for the marketing and development of the firm's Depositary Receipt business in the region.

Mr. Tse joined J.P. Morgan in 1984. During his 27 years with the firm, he had been assigned to various locations including Hong Kong, Tokyo, Singapore and New York.

He was head of the Euroclear Representative Office in Hong Kong and Singapore respectively, before he became the regional head of the J.P. Morgan's DR Group in 2000.

Mr. Tse graduated from the University of Hong Kong and University of California at Berkeley, with B. Sc. and M.B.A. degrees respectively.

### ABOUT MONGOLIA EXPERT SERIES

This year's conference, titled "Mongolia: Capital Raising and Investment" was the fifth edition of its kind to be organized by Frontier Securities. Having grown year on year in terms of importance since 2007, this conference has become a major event for anyone interested in exploring the latest developments in Mongolia's business environment from key direct sources. The focus of this last edition, held in the context of a robustly growing economy and booming mineral exports, encompassed the dynamics of capital raising from the viewpoint of the Mongolian government and local private sector by way of privatization and/or bond issue. It further provided the global investors community (266 Mongolian and foreign entities covering 19 countries were represented) with some relevant and up-to-date insights about the numerous opportunities offered by a wide array of sectors in the country, the most prominent of which being the mining sector.

The conference has gathered more than 500 prominent industry leaders and government officials from organizations such as Foreign Investment and Foreign Trade Agency, State Property Commission, Ministry of Road and Transportation, MonAtom, Erdenes MGL, Mongol Bank, Government of Mongolia, Ministry of Mineral Resources and Energy, Mongolia Development Bank, National Development and Innovation Committee, TDB Mongolia, Prophecy Resource Corp, Mongolian Mining Corporation, South Gobi Energy Resource as well as various professionals from international financial markets, including; Citigroup, J.P. Morgan, CICC, BOC International, Ipreo, Moody's Investors Service, Hogan Lovells, Jones Day, Minter Ellison, Quam Asset Management, American Appraisal, BMI Technical Consulting (Resources) Ltd, etc. In addition, senior managers from MSE Mongolian Stock Exchange, Hong Kong Stock Exchange, Korea Exchange, London Stock Exchange, and Tokyo Stock Exchange have featured in our conference and shared their knowledge and insights regarding IPO and capital raising with broad audience of our conference.

Mongolia Expert Series is one of the in-house research report of Frontier Securities which utilizes the information collected during the Frontier Securities' Annual Conference. We hope the series will provide genuine insight into Mongolian investment environment, as well as various capital raising opportunities present for Mongolian companies.

