

**HKE<sub>x</sub> GUIDANCE LETTER**  
**HKE<sub>x</sub>-GL47-13 (Published in January 2013)**

<b>Subject</b>	<b>Continuing obligations under Chapter 18</b>
<b>Listing Rules and Regulations</b>	<b>Main Board Rules 18.14 to 18.18</b>  <b>GEM Rules 18A.14 to 18A.18</b>

*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 Division on a confidential basis for an interpretation of the Listing Rules, or this letter.*

**A. Background and Purpose**

1. This letter assists Mineral Companies and listed issuers that publicly disclose details of resources and/or reserves (the **R18.15 Companies**) by giving guidance for the better discharge of their continuing obligations under Chapter 18 of Main Board Rules (Chapter 18A of GEM Rules).
2. The revised Chapter 18 of Main Board Rules (Chapter 18A of GEM Rules) became effective on 3 June 2010. Since then, the Exchange has reviewed the operation of Chapter 18 by looking at specific required disclosures in annual reports for Mineral Companies and R18.15 Companies. It has identified certain disclosure areas that could be improved.

**B. Relevant Rules**

3. Definition of Mineral Company under Chapter 18:

**“Mineral Company”** *a new applicant whose Major Activity (whether directly or through its subsidiaries) is the exploration for and/or extraction of Natural Resources, or a listed issuer that completes a Relevant Notifiable Transaction involving the acquisition of Mineral or Petroleum Assets.*

Note: “Natural Resources” includes both minerals and oil and gas.

4. Extracts of provisions relating to continuing obligations under Main Board Chapter 18:

**CONTINUING OBLIGATIONS**

***Disclosure in reports***

**18.14** *A Mineral Company must include in its interim (half-yearly) and annual reports details of its exploration, development and mining production*

*activities and a summary of expenditure incurred on these activities during the period under review. If there has been no exploration, development or production activity, that fact must be stated.*

### ***Publication of Resources and Reserves***

*18.15 A listed issuer that publicly discloses details of Resources and/or Reserves must give an update of those Resources and/or Reserves once a year in its annual report, in accordance with the reporting standard under which they were previously disclosed or a Reporting Standard.*

*18.16 A Mineral Company must include an update of its Resources and/or Reserves in its annual report in accordance with the Reporting Standard under which they were previously disclosed.*

*18.17 Annual updates of Resources and/or Reserves must comply with rule 18.18.*

*Note: Annual updates are not required to be supported by a Competent Person's Report and may take the form of a no material change statement.*

### **STATEMENTS ON RESOURCES AND/OR RESERVES**

#### ***Presentation of data***

*18.18 Any data presented on Resources and/or Reserves by a Mineral Company in a listing document, Competent Person's Report, Valuation Report or annual report, must be presented in tables in a manner readily understandable to a non-technical person. All assumptions must be clearly disclosed and statements should include an estimate of volume, tonnage and grades.*

#### **C. Guidance**

5. The main purpose of imposing continuing obligations under Chapter 18 is to ensure that investors are provided with significant, relevant and reliable information about companies engaged in exploration and production of natural resources. The following guidance on disclosures is not meant to be exhaustive. A listed issuer should assess its own situation to decide whether additional disclosures are appropriate.
6. The Exchange expects Mineral Companies and R18.15 Companies to observe the following when preparing annual reports/interim reports in accordance with the above provisions of Chapter 18:

#### **C.1 Interim and annual reports**

##### ***Exploration, development and mining production activities***

7. For the disclosures on exploration, development and mining production activities in the interim and annual reports:

- (i) Details of exploration activities including number, average size, total length of holes drilled during the review period.
- (ii) Details of development activities including progress on the mining structure or infrastructure.
- (iii) Details of mining activities including quantity of mineral ore being mined during the period under review by project or at least a separate discussion on major projects.
- (iv) Details of new contracts and commitments entered into during the period including those related to infrastructure projects (road and railway), subcontracting arrangements and purchases of equipment.

If a Mineral Company has several mineral assets/projects on hand, it should consider presenting this information on a project basis.

### ***Expenditures incurred***

- 8. The summary of expenditures incurred should not be limited to operating expenses, i.e. costs that were directly charged to income statement during the period they were incurred. A Mineral Company should also disclose the capital expenditures incurred, which could be much more significant than operating expenses.
- 9. Common expenses include mining costs, processing costs, transportation, royalties or fees payable to government and financing costs. A Mineral Company, depending on its own situation, should consider providing a further breakdown of expenses incurred in order to provide more meaningful information to its shareholders and enhance the transparency of its activities (e.g. separately disclose labour costs incurred for mining activities and processing activities).

## **C.2 Annual reports**

### ***Annual updates on resources and reserves***

- 10. Generally, Rules 18.15 to 18.18 require a Mineral Company or a R18.15 Company to provide updates of its resources and reserves in a table and present it in a readily understandable manner in its annual reports. In addition, it should disclose the assumptions adopted. For any material change of assumption as compared with previous disclosed estimates, it is expected that the reasons for such changes should also be disclosed.
- 11. It would be useful for a Mineral Company to include a discussion on the reasons for changes in the resources and reserves estimates. Examples include changes in geological confidence level, additional drilling information becoming available, amount of mineral mined during the period etc.

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