

# SGX issues new Listing Rules to entice mineral, oil and gas companies to list in Singapore

The new rules introduced by the Singapore Exchange Securities Trading Limited (**SGX**) for the listing and continuing listing obligations applicable to companies in the mineral, oil and gas (**MOG**) sector on the SGX Mainboard came into effect on 27 September 2013. The new rules set the admission criteria applicable to the listing of MOG companies that are not yet in production and introduce continuing listing requirements that cater to the specific characteristics of MOG companies.

The new rules seek to strike a balance between attracting more early-stage MOG companies seeking to extend their presence in Asia Pacific to list on the SGX while, at the same time, safeguarding investors' interests.

Earlier this year, we advised KrisEnergy Ltd (KrisEnergy) on its US\$200 million IPO on the SGX and it was the first MOG company to test the new rules. While it listed prior to the new rules coming into effect, its prospectus was prepared to comply with the new MOG rules. The successful listing of KrisEnergy has led to interest from other regional MOG companies, such as Linc Energy Limited, to consider listing on the SGX.

For local and international investing communities, the new listings will broaden the range of investment choices. A bigger pool of investors will bring about higher liquidity which will in turn, attract more companies to list in Singapore, taking Singapore a step closer to becoming a commodities trading hub.

In this briefing we discuss some of the key features of the new listing rules for MOG companies as well as comparing some features of the new SGX rules with the MOG specific rules laid down by the Hong Kong Stock Exchange (**HKSE**) and the London Stock Exchange (**LSE**).

## Key features of the new rules

### For MOG companies not yet in production

- Have market capitalisation of not less than S\$300 million
- Disclose plans, milestones and capital expenditure to advance to production stage

### For all MOG companies

- Have at least achieved "indicative resources" for minerals or "contingent resources" for oil and gas
- Have sufficient working capital for at least 18 months from listing
- Have at least one independent director with appropriate industry experience and expertise
- Appoint an audit firm with relevant industry experience
- Include a valuation report on its reserves in the offer document
- Provide an independent qualified person report for reporting of significant resource or reserve
- Singapore issue manager to confirm to SGX on MOG company's compliance with relevant laws and regulations and possession of title to its assets

## What are the requirements for listing an MOG company?

### Market capitalisation

MOG listing applicants that are not yet in production and are therefore unable to meet the specified SGX profitability and other financial benchmarks must have a minimum market capitalisation of at least S\$300 million based on the issue price and post-invitation issued share capital. This compares to the S\$150 million minimum market capitalisation required for similarly situated listing applicants from other industries which are profitable in the latest financial year and have an operating track record for at least three years.

Smaller exploration companies will need to look to list on the Catalist which does not stipulate minimum market capitalisation requirements or an alternative exchange such as the Toronto Stock Exchange or the Australian Securities Exchange which have much lower market capitalisation requirements.

By comparison, HKSE requires HK\$200 million (S\$32 million) market capitalisation and the LSE requires £700,000 (S\$1.4 million) market capitalisation.

### Working capital requirements

All MOG listing applicants must demonstrate sufficient working capital to meet their present requirements, and for at least 18 months following listing. Due to the long lead times for MOG projects to move from the exploration stage into the production stage, the SGX had thought it prudent that companies would need sufficient cash reserves for at least 18 months. By comparison, the HKSE rules require a MOG company to demonstrate sufficient working capital to meet 125% of their present requirements for at least 12 months following listing.

The new rules define working capital to include:

- operating, general, administrative and financing costs;
- property holding costs; and
- proposed exploration and/or development costs.

### Adequate resources

MOG listing applicants must be able to establish the existence of adequate resources, which must be substantiated by an independent qualified person's report (QP Report). For minerals, these must be categorised as

at least an "Indicated Resource" and for oil and gas, categorised at least as a "Contingent Resource".

The new rules outline who would qualify as an independent qualified person as well as the technical requirements for such reports.

### Due diligence by issue manager

Prior to listing, the issue manager must submit a confirmation to the SGX that, after conducting due diligence, it is not aware of any matter that has caused it to believe that the MOG listing applicant:

- has not obtained all material licences, permits or certificates necessary to conduct its operations;
- is not in compliance with all relevant laws, rules and regulations; and
- does not possess title to or valid and enforceable rights to any assets (including licenses and agreements) as is appropriate to the listing applicant.

The issue manager must ensure that in relying on any opinion from a legal advisor that such legal advisor has the relevant experience and is authorised to practice and advise in the relevant jurisdiction.

If projected cash flows are relied upon when assessing the MOG listing applicant's ability to access cash, the issue manager must also submit a confirmation to the SGX that it is satisfied that such projections have been prepared after due and careful inquiry.

### Independent director

The MOG listing applicant must have at least one independent director, who has the appropriate industry experience. The rules are silent on what will amount to "appropriate industry experience", leaving it to be decided on a case-by-case basis.

### Auditor with relevant industry experience

Due to the highly specialised and technical nature of the MOG industry, the SGX has stipulated that the auditor of the MOG listing applicant must have relevant industry experience.

## Prospectus disclosure requirements

In addition to complying with the general prospectus requirements, MOG listing applicants need to ensure that

the prospectus complies with certain additional disclosure requirements. Some of these additional disclosure requirements are described below.

### Financial disclosure

MOG listing applicants that are not yet in production and are therefore unable to meet the specified SGX profitability and other financial benchmarks must disclose their plans, milestones and capital expenditure to advance to production stage. These plans must be substantiated by the opinion of an independent qualified person.

### Disclosure of resources

The new rules permit the disclosure of estimated volumes of "Prospective Resources" provided that the relevant risk factors are clearly stated and economic values are not attached to the "Prospective Resources". This is similar to the position under the HKSE rules.

All statements and reports in relation to reserves, resources or exploration results must be prepared and presented in accordance with the VALMIN Code, SPE-PRMS or an equivalent standard that is acceptable to the SGX.

### Valuation and QP Reports

The prospectus must also include a valuation report with respect to the MOG listing applicant's reserves and resources. This report must be prepared by an independent qualified person and can form part of the QP Report to be included as part of the prospectus and must not be dated more than six months from the date of lodgement of the prospectus.

The new rules include detailed guidance on the permitted required contents and technical reporting standards of the valuation report and the QP Report.

Potential issuers should consider the additional cost and time to prepare a QP Report that satisfies the requirements laid down by the SGX in the new rules.

## Continuous reporting requirements for MOG companies

Existing and newly-listed MOG companies will need to comply with some additional continuous reporting requirements, including obligations to:

- immediately announce to the market whenever there has been a material change to their reserves or resources, substantiated by a QP Report;
  - ensure that a QP Report (signed by an independent qualified person) is prepared in respect of any announcement regarding:
    - new material reserves or resources which have not been previously disclosed; and
    - a 50% change or more in reserves or resources that have been previously been disclosed.
- While the announcement must be made to the market immediately, the QP Report can be made "as soon as practicable", thereby allowing MOG companies time to prepare a QP Report. However, a MOG issuer must include a statement in its announcement that the resource or reserve estimates referred to in the announcement have been reviewed by a qualified person;
- in respect of MOG companies that have not achieved certain profit benchmarks or whose principal assets have not entered into production, a requirement to make quarterly announcements disclosing the use of their funds during the previous quarter and their projected use of funds for the next immediate quarter;
  - reporting analytical results in a timely and responsible manner; and
  - where work has been discontinued on properties about which prior disclosure has been made, provide further information as to any undisclosed results and reasons for the cessation of work.

The SGX has provided for a transitional month period of up to 12 months (depending on the nature of the obligation) to enable existing listed MOG companies to comply with the new continuing reporting requirements.

It should be noted that these reporting requirements are in addition to those already set out in Chapter 7 of the Listing Rules.

## Conclusion

These new rules are aimed at encouraging more MOG companies to list in Singapore. At the same time, they serve to ensure that these MOG companies are of the highest quality.

## Contacts



**Raymond Tong**  
Partner

E: raymond.tong  
@cliffordchance.com



**Bin Wern Sern**  
Counsel

E: wernsern.bin  
@cliffordchance.com



**Ryan Lin**  
Associate

E: ryan.lin  
@cliffordchance.com

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Clifford Chance Pte Ltd, 12 Marina Boulevard, 25th Floor Tower 3,  
Marina Bay Financial Centre, Singapore 018982

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