



Listing Manual Amended: New Rules on Watch-List

On 6 December 2007, the Singapore Exchange ('SGX') issued an amendment to the Mainboard Listing Manual. The amendment allows SGX to place companies that are not doing well on a watch-list. It is intended to heighten market transparency by alerting investors to the financial developments of the companies so listed. This amendment to the rules will take effect from 1 March 2008. This Update takes a look at how the amendment will operate.

When a Company Will Be Placed on the Watch-List

Losses and low market cap will put issuer on watch-list

SGX will place an issuer on the watch-list, if it records:

- pre-tax losses for the three most recently completed consecutive financial years; and
- an average daily market capitalisation of less than S\$40 million over the last 120 market days on which trading was not suspended or halted.

In computing its pre-tax financial results, the issuer should use the latest announced full year consolidated accounts, excluding exceptional or non-recurrent income and extraordinary items.

SGX will review quarterly but issuers must also monitor

SGX has indicated that it will be conducting quarterly reviews to identify issuers to be included on the watch-list. However, issuers will need to monitor their own results, as they will be required to immediately make an announcement of the fact if they record a third consecutive year of pre-tax losses. The announcement must be in the form prescribed by SGX.

Obligations of Companies Placed on the Watch-List

Issuer on watch-list must actively work to improve situation

Once it is placed on the watch-list, over and above making an immediate announcement of that fact, the issuer will be required to take active steps to improve its financial position in order to remove



itself from the watch-list. It has 24 months to satisfy the requirements for getting off the watch-list (the requirements are discussed below).

Quarterly updates to be provided to the market

During the period while it is on the watch-list, the issuer must, on a quarterly basis, provide the market with updates on its financial situation (including its future direction). Material developments that may have a significant impact on its financial position must, of course, be announced immediately. However, as the amendments also indicate that the updates should include such material developments, it would seem that these may have to be summarised on a consolidated basis in the quarterly updates as well.

Being Removed from the Watch-List

Requirements for being removed from the watch-list

As noted above, the issuer has 24 months to apply to SGX to be removed from the watch-list. It may only be removed if it satisfies certain specified criteria, namely:

- it has a consolidated pre-tax profit for the most recently completed financial year (no minimum amount specified) and has an average daily market capitalisation of S\$40 million or more over the last 120 market days; or
- it has a cumulative consolidated pre-tax profit of at least S\$10 million for the last one or two years.

While the amendments do also allow an issuer to be removed from the watch-list if it is able to show that it has a cumulative consolidated pre-tax profit of at least S\$7.5 million for the last three years, and a minimum pre-tax profit of S\$1 million for each of those three years, it is not clear how this requirement can be met in practice as the time frame imposed is 24 months.

Failure to be removed may result in delisting

If, after 24 months, the issuer has not been able to achieve the requirements for removal, it may be delisted or have trading in its securities suspended with a view to delisting.

The issuer may, however, apply for an extension of the 24-month deadline, and there are three situations where an extension may be sought:

LegisWatch

December 2007



Issuer on the way to achieving removal from watch-list

- An issuer may apply for an extension of up to 12 months if:
 - it has a consolidated pre-tax profit for the most recently completed financial year (no minimum amount specified); or
 - it has an average daily market capitalisation of S\$40 million or more over the last 120 market days.

It must also have a healthy cash flow from its operating activities (based on its latest consolidated audited financial statements).

Issuer in the process of negotiating acquisition of assets

- Alternatively, an issuer may apply for an extension of up to three months if it has entered into a legally binding agreement to acquire assets that will enable the enlarged group to satisfy one of the following profit tests:
 - Cumulative consolidated pre-tax profit of at least S\$7.5 million for the last three years, and a minimum pre-tax profit of S\$1 million for each of those three years; or
 - Cumulative consolidated pre-tax profit of at least S\$10 million for the last one or two years.

Issuer's shares were suspended during 24-month period

- Finally, the 24-month period may be extended if trading in the securities of the company was suspended during a period preceding the end of the 24-month period. The suspension must have been pursuant to rule 1303(3) of the Listing Manual (i.e. suspension of trading where the issuer is unable to continue as a going concern). In this case, however, the extension will only be for such period of time as may be required to allow a computation of the issuer's average daily market capitalisation over 120 market days to be made.

If you would like more information on this or any other area relating to continuing listing obligations, or corporate governance generally, you may wish to contact the lawyer at WongPartnership that you normally deal with or contact the following partners from the Corporate Governance Practice:

**JOY TAN**

DID: +65 6416 8138

Email:

joy.tan@wongpartnership.com.sg[Click here to see Joy's CV.](#)**ANNABELLE YIP**

DID: +65 6416 8249

Email:

annabelle.yip@wongpartnership.com.sg[Click here to see Annabelle's CV.](#)