

Guideline for Listing Examination

January 2019

Yangon Stock Exchange

I Listing Regulations in Yangon Stock Exchange

【Listing Criteria】

(Formal Criteria)

1. It shall be a registered company limited by shares in accord with the Myanmar Companies Law, conducting the business in line with the public company' s features and procedures.
2. It shall have at least 100 shareholders and above.
3. Paid-up capital shall be the minimum of kyat 500 million on the date of application.
4. It shall have the profit at least 2 years during the period of before the date of application.

(Substantive Criteria)

5. The business shall have the stable basic income and conduct in accordance with the existing laws.
6. The Board of Directors and the heads of the company shall be in good character and have had not been having any punishment by a court, in addition, have not been facing any lawsuits. They shall perform their duties and responsibilities with well-prepared, in good-faith and fairly in line with the laws.
7. The Board of Directors and the heads of the company shall not act any deceptive manners by the public for the interest of the company and self-interest.
8. Each Director of the public company shall not do any business which has the same interest carrying out by the public company, except with the approval of Shareholder meeting.
9. The company, the Board of Directors and the heads of such company shall not be included in the black list of any public and government organizations.
10. Book-keeping of accounts and auditing of the company shall be undertaken in accordance with the Myanmar Accounting Standards or International Financial Reporting Standards, and Myanmar Standards on Auditing or International Standards on Auditing.
11. The company shall fulfill tax duties in accordance existing tax laws of Myanmar.
12. The disclosure of relevant corporate information and the facts that the public should be known, shall be disclosed and submitted to the Securities Exchange Commission of Myanmar and Yangon Stock Exchange, besides it Shall be disclosed and announced to the public by means of easy understandable and best suitable ways in timely manner. For disclosure of corporate information, it shall prescribe especially and precisely on the matters which have a considerable impact on investment decisions of the investors, such

- as the risk factors for the potential loss and the basic potential business activities.
13. It shall set up an effective system to comply with laws, rules and regulations by appointing the compliance officer.
 14. It shall have business plan containing business design, business process environment and the risk factors.
 15. It shall set up a system to prevent the insider trading.
 16. It shall continuously operate and manage stably without any influence by keeping soundness of good corporate governance, internal management and internal control system.
 17. It shall have rational expectation to get a profit base upon stable revenue.

【Securities Listing Business Regulations】

Section 7. Formal Criteria

1. The listing examination pertaining to stocks --[Omitted]-- shall be conducted on companies that satisfy each of the following items.

(1) Share distribution

The following a and b shall be met.

a. Floating shares

The following (a) and (b) shall be met.

(a) The number of floating shares is expected to reach at least 5,000 on the day of listing;

(b) The market capitalization of floating shares is expected to reach at least 500 million (500,000,000) Kyat on the day of listing;

b. Number of shareholders

The number of shareholders is expected to reach at least one hundred (100) on the day of listing;

(2) Profit

Profits have been recorded for the most recent two years. The total profits of the latest two (2) years are more than zero.

(3) Paid-up Capital

Paid-up Capital as of the initial listing application day shall be at least 500 million (500,000,000) Kyat.

(4) Number of consecutive years in business conduct

The business has been in continuous operation on or before a day which is two (2) years prior to the application for initial listing day.

(5) Public company

The applicant shall be a public company.

(6) Financial Reporting Standards

The applicant shall comply with Myanmar Financial Reporting Standards or International Financial Reporting Standards.

(7) Restrictions on transfers of shares:

No restrictions are imposed on the transfers of shares pertaining to the initial listing application (excluding cases where such restrictions are imposed pursuant to laws and regulations).

(8) Entrustment of shareholder services agency:

The applicant shall have entrusted shareholder services to the Exchange or received

informal acceptance of entrustment of such services from the Exchange as a shareholder services agency.

(9) Handling by designated book-entry transfer institution:

Shares shall be handled by the book-entry transfer services provided by the Exchange as a book-entry transfer institution, or expected to be handled by the time of listing.

Section 8. Substantive Examination

1. Listing examination of a stock pertaining to an initial listing application shall be conducted on the initial listing applicant and its corporate group with respect to matters referred to in each of the following items, and treatment in such case shall be set forth in the Enforcement Regulations for Securities Listing Business Regulations.

(1) Corporate continuity and profitability

A business is operated continuously and a stable revenue base is present.

(2) Soundness of corporate management

Business is being conducted fairly and faithfully.

(3) Effectiveness of corporate governance and internal management system

Corporate governance and internal management systems are appropriately established and functioning.

(4) Appropriate disclosure of corporate information, etc.; and

Corporate information, etc. can be appropriately disclosed.

(5) Other matters the Exchange deems necessary from the perspective of the public interest or investor protection.

【 Enforcement Regulations for Securities Listing Business Regulations】

Section 5. Handling of Formal Listing Criteria

1. With respect to the share distribution prescribed in Section 7, Item 1 of the Business Regulations, examination shall be conducted on share distributions specified in each of the following items in accordance with the classification of an initial listing applicant defined therein:

(1) Where the initial listing applicant conducts an offering of new shares or existing shares related to the initial listing application

Expected share distribution on the day of listing, including the number of increased shares due to an offering of new shares or existing shares described in the "Schedule of Offering of New Shares or Existing Shares"

(2) Cases other than the preceding item

Share distribution on the most recent record date described in the "Share Distribution Table"

2. Profit prescribed in Section 7, Item 2 of the Business Regulations means "comprehensive income" stated in the consolidated statement of comprehensive income.

Section 6. Points of Substantive Examination

1. The listing examination stipulated in Section 8 of the Business Regulations shall be conducted by examining the following matters along with other viewpoints.

(1) Lawful business operations and structure to generate continuous profit.

(2) Directors or persons equivalent thereto do not fall under any of the following:

a. A person who is deemed to be inappropriate as a director of a listed company or a person equivalent thereto from the perspective of having a criminal background; or

b. A person who conducts acts that are contrary to the public interest.

(3) Systems are established to report matters that may have significant influence on investment decisions, risks in business and other company information to the Exchange and Securities and Exchange Commission of Myanmar or other regulatory authorities in an appropriate manner and conduct prompt disclosure.

(4) A compliance manager is appointed and an internal system is established for legal compliance.

(5) A business plan considering the business model, business environment and business risks is prepared.

(6) Internal systems to prevent insider trading is established.

- (7) Continuous business operations and ability to make independent decisions.
- (8) Rational future estimates of business profitability.

II Relevancy in Each Regulation

Formal criteria and substantive criteria in each regulation are described together in the previous section. On the other hand, the following table especially focuses on substantive criteria and shows relevancy in each regulation (Listing Criteria; “Substantive Examination”, Section 8 in Securities Listing Business Regulations and “Points of Substantive Examination”, Section 6 in Enforcement Regulations for Securities Listing Business Regulations).

Substantive Examination	Listing Criteria and Points of Substantive Examination
<p>1. Corporate continuity and profitability (Check items in the substantive examination: pp10-14)</p>	<p><Listing Criteria></p> <p>5. The business shall have the stable basic income and conduct in accordance with the existing laws.</p> <p>14. It shall have business plan containing business design, business process environment and the risk factors.</p> <p>17. It shall have rational expectation to get a profit base upon stable revenue.</p> <p><Points of Substantive Examination></p> <p>(1) Lawful business operations and structure to generate continuous profit.</p> <p>(5) A business plan considering the business model, business environment and business risks is prepared.</p> <p>(8) Rational future estimates of business profitability.</p>
<p>2. Soundness of corporate management (Check items in the substantive examination: pp15-19)</p>	<p><Listing Criteria></p> <p>6. The Board of Directors and the heads of the company shall be in good character and have had not been having any punishment by a court, in addition, have not been facing any lawsuits. They shall perform their duties and responsibilities with well-prepared, in good-faith and fairly in line with the laws.</p> <p>7. The Board of Directors and the heads of the company shall not act any deceptive manners by the public for the interest of the company and self-interest.</p>

Substantive Examination	Listing Criteria and Points of Substantive Examination
	<p>8. Each Director of the public company shall not do any business which has the same interest carrying out by the public company, except with the approval of Shareholder meeting.</p> <p>9. The company, the Board of Directors and the heads of such company shall not be included in the black list of any public and government organizations.</p> <p>11. The company shall fulfill tax duties in accordance with existing tax laws of Myanmar.</p> <p><Points of Substantive Examination></p> <p>(2) Directors or persons equivalent thereto do not fall under any of the following:</p> <p>a) A person who is deemed to be inappropriate as a director of a listed company or a person equivalent thereto from the perspective of having a criminal background; or</p> <p>b) A person who conducts acts that are contrary to the public interest.</p>
<p>3. Effectiveness of corporate governance and internal management system (Check items in the substantive examination: pp20-24)</p>	<p><Listing Criteria></p> <p>10. Book-keeping of accounts and auditing of the company shall be undertaken in accordance with the Myanmar Accounting Standards or International Financial Reporting Standards, and Myanmar Standards on Auditing or International Standards on Auditing.</p> <p>13. It shall set up an effective system to comply with laws, rules and regulations by appointing the compliance officer.</p> <p>16. It shall continuously operate and manage stably without any influence by keeping soundness of good corporate governance, internal management and internal control system.</p> <p><Points of Substantive Examination></p> <p>(4) A compliance manager is appointed and an internal system is established for legal compliance.</p> <p>(7) Continuous business operations and ability to make independent decisions.</p>

Substantive Examination	Listing Criteria and Points of Substantive Examination
<p>4. Appropriate disclosure of corporate information, etc. (Check items in the substantive examination: pp25-29)</p>	<p><Listing Criteria></p> <p>12. The disclosure of relevant corporate information and the facts that the public should be known, shall be disclosed and submitted to SECM and YSX, besides it shall be disclosed and announced to the public by means of easy understandable and best suitable ways in timely manner. For disclosure of corporate information, it shall prescribe especially and precisely on the matters which have a considerable impact on investment decisions of the investors, such as the risk factors for the potential loss and the basic potential business activities</p> <p>15. It shall set up a system to prevent the insider trading.</p> <p><Points of Substantive Examination></p> <p>(3) Systems are established to report matters that may have significant influence on investment decisions, risks in business and other company information to the Exchange and Securities and Exchange Commission of Myanmar or other regulatory authorities in an appropriate manner and conduct prompt disclosure.</p> <p>(6) Internal systems to prevent insider trading is established.</p>

III Check Items in the Substantive Examination

YSX usually check following points in actual listing examinations.

1. Corporate continuity and profitability

(1) Management activities of the applicant company are recognized to be able to be carried out stably and continuously.

- The examination on the basis this item will focus on actual status of corporate management including the evaluation as to whether the management activities (meaning business activities, and investment activities and financial activities) will be carried out stably after listing.

<Business Activities>

- YSX assesses the revenue base and revenue structure of the applicant company in light of the status of purchases, production and sales (in this paragraph, manufacturing industry is referred to as an example; naturally items to be examined will differ, depending on the category and lines of business), actual results of transactions with customers and suppliers, characteristics and demand trends for manufactured products and services, and also confirms whether or not these business activities can be carried out stably and continuously.
- For procurement, the examination point is that the applicant company can procure necessary items of relevant quality and volume in a timely manner, or the applicant company executes effective procurement.
- For production, the examination point is that the applicant company has in place organizations and systems where it can produce products in quantity which may not hamper continuous sales activities and in quality which should not impair the confidence of customers in products; or the applicant company keeps competitiveness in production technology and production efficiency.
- When the applicant company outsources a part of production activities, YSX will naturally evaluate whether the applicant has selected a good outsourced entity.
- For sales, the examination point is that the applicant company can keep its

competitiveness and profitability by investigating the structure of the internal organization to execute sales, sales method, sales share for each product per region and user, and the trend in demand; the relationship with major customers has been well maintained or there are no ailing companies in customers. If the business relationship with a customer is deteriorating, YSX will more closely examine how the curtailment or termination of business with the customer will affect the corporate group of applicant company or how it can compensate for losses arising from such situation. YSX will also assess the existence of any factors which significantly impede the continuous operations of business after listing.

- From the point of view of soundness of assets, YSX will confirm how the applicant company manages and collects accounts receivables.
- YSX will examine the conditions of the industry where the applicant company operates (characteristic of the industry, market size, etc.) and the competition within the industry (competition status, rank in the industry, market share, etc.). The examination point is whether the marketability of products is not declining, as well as the products of the applicant company are characterized such that they may continue to evoke relevant demands.

<Investment Activities>

- YSX will confirm if investment activities such as capital investment and business investment, etc. of the applicant company do not hinder continuous management activities in light of the trend and future outlook, etc. of the state of investment
- Specifically, YSX will assess whether the applicant company has appropriately developed investment plan for capital expenditures and investments in research and development activities which are required to maintain competitive power in business and address future expansion of business, as well as whether the applicant company has made sufficient and necessary consideration of cash flow plan and investment recovery plan in making investment in a new business.

<Financial Activities>

- YSX confirms that Financial activities such as fundraising, etc. of the applicant company do not hinder continuous management activities in light of the trend and future outlook, etc. of the state of financial affairs
- Specifically, YSX will assess the availability and prospectus for necessary funds to realize business expansion and business expansion on the basis of the financial conditions of the applicant company. In addition, when the borrowing is expected to

continue to increase because of capital expenditures going forward, YSX will assess whether financial conditions which significantly affect the continuation of business are unlikely to deteriorate significantly on the basis of trends in the industry, business relationship between the applicant company and banks, and fundraising plan including capital increase through public offering after listing.

<Pemit orAuthorization>

- For the business of the applicant company requires any permit or authorization, etc. (meaning permission, authorization, license, or registration pertaining to main businesses or manufactured goods and commodities or sales agent agreements or production entrustment agreements; the same shall apply hereinafter.), YSX will assess whether the applicant company is in a position to continuously renew such permit or authorization. When a main business of the applicant relates to industry categories which require permission, authorization, license or registration of administrative agencies, etc., or largely depends on selling agent agreement or production entrustment agreement with as specific business partner, it is expected that the business will not be able to continue in the event that they are terminated or cancelled. Therefore, YSX will assess whether such event leading to cancellation or termination thereof has not emerged.

(2) The business plan of the applicant company is appropriately drawn up in light of its business model, business environment, risk factors, etc.

- YSX will assess whether the business plan of the applicant company has been prepared in due course of process.
- YSX will gain in-depth understanding of characteristics (strength and weakness) of business model and profit generating structure of the applicant company with reference to, but not limited to, factors in prior years which gave rise to changes in operating results. Then YSX will mainly assess whether the business plan exhaustively reflects various factors to be reflected in developing businesses going forward (industry environments and status of peer companies, market size and market prices at the market where the applicant operates, trend in demands for products and services, trends in raw materials market, etc., status of major customers, suppliers and other business partners, and status of law and regulations).
- YSX will also assess whether the plan to generate profit, sales plan, procurement and production plan, capital investment plan, personnel plan and fundraising plan are consistent with each other.
- YSX will determine whether the business plan represents a reasonable plan which has been reasonably developed through the due process of the applicant on a company-level, rather than a plan which merely shows internal target goals based on the sole determination of specific management, departments or divisions.

(3) The applicant company is reasonably expected to be able to maintain a stable profit in the future;

- YSX will evaluate whether an applicant is reasonably expected to recognize stable profit for a certain period of time following listing. The reference “a certain period of time” basically represents two years period including application year. However, if it is expected that any event which is likely to significantly affect the performance of the applicant company (e.g. amendment of statutory regulations, large capital expenditure plan, etc.) may take place in the third year or after following listing, YSX will make the assessment including such event.
- When the performance of the applicant company declines as its revenue and profit are decreases, YSX will examine the basis for continuously recognizing profit after listing. In practice, YSX will evaluate the profit and loss break even point and basis for continuously clearing the point, as well as the stability of main segments. When profit and loss significantly fluctuates due to special events or reasons, YSX will conduct the evaluation including consideration of such events.

2. Soundness of Corporate Management

(1) An applicant is not deemed to give or enjoy profit wrongfully through a trading act or any other management activities with specified entities.

- Since transactions (trading transactions, finance transactions and lease transactions of real estate, etc.,) with related parties (meaning a director of the applicant company, a relative, a company belonging to the same group as the applicant company (a parent company, a subsidiary, a subsidiary of subsidiary and an affiliated company) and other specific persons; the same shall apply hereinafter) represent a transaction with a person having special relationship, there is a concern that the applicant is forced to enter into transactions which are not primarily necessary or the terms and conditions of the transaction may be distorted. Therefore when any related party transaction occurs at the applicant company, the applicant company is required to consider organically whether such transaction is reasonable (necessity for the business) or the terms and conditions are adequate. YSX will confirm whether benefits of the corporate group of an applicant company are not lost wrongfully because relevant parties and any other specified entities of the applicant company give priority to their own benefits
- An example case where it is reasonable to continue transactions after listing is as following:

The applicant finds it difficult to identify an alternative partner as transactions have continuously been carried out, starting with the time before the preparation of the listing or as the applicant cannot identify any partner who shows more favorable terms and conditions of transactions.
- One of the determinant factors to decide that the transaction is determined to grant undue benefit is that, for example, the management of the applicant can reasonably explain that the transactions activities can be justified when considering the benefit of the applicant, not individuals, in the first place. Especially, it might not be questioned whether the transaction was necessary for a company or its owner as an individual because the ownership and management of the company were not sharply separated before listing. However, as a listed company has a large number of general investors, in carrying out any transaction, it is required to satisfy the benefits of shareholders including general investors by clearly separating the assets of the company from those of the owner.

- Moreover, YSX will assess whether the applicant has appropriate recognition on related party transactions or has in place appropriate check and balance functions so that no transaction without reasonableness or adequate terms and conditions would take place after listing. For any transaction involving the management, YSX will assess whether an appropriate system has been developed and operated where such transaction will be considered at a corporate level and appropriate check and balance functions will be applied properly.

(2) Directors and officers of the applicant company carry out business fairly and faithfully for the applicant company.

- YSX will confirm whether the mutual relationship of relatives of directors and officers of an initial listing applicant, its composition, actual working situation or the state of concurrent posts as officers and employees, etc. with any other company, etc. are recognized not to impair the fair, faithful and full execution of office duties.
- It is assumed that a company with biased composition of directors or officers for which family members or relatives of the management account for a large portion of the Board of Directors, the influence thereof over the company would be strong, YSX will assess whether the interest of directors or officers from family members or relatives of the management would be preferred to that of company as a whole in consideration of the background for the election thereof and the status of related party transactions therewith, whether the applicant company makes any decision favorable to the family group, and whether decision making process of the applicant company is distorted.
- If any director or officer of the applicants concurrently holds the position of director or officer at another company, YSX will assess whether such directors or officers execute their required supervision duties properly. For full-time directors/officers, assess whether the mobility of the execution of their duties have not been impaired, or flexibility in daily business operation and fair decision of the applicant company are not likely to be impeded. If the applicant has any business relationship with such another company, YSX will assess in the listing examination whether the applicant has in place any governance system to exercise checks and balances on any such business relationship, and whether or not the applicant is forced to suffer disadvantages.

(3) When an applicant has a parent company, etc., its management activities are recognized to have independence from such parent company, etc.

- Where an applicant has a parent company (including a parent company and a company belonging to the parent company; the same shall apply hereinafter), YSX will evaluate whether the applicant's independence from the parent company to ensure that the rights and benefits of the minority interests of the applicant will not be impaired.
- In light of the relationship between the business line of the applicant company and that of the parent company, the state of business adjustment made by the parent company and its possibility, YSX will confirm whether an applicant company is not recognized to be substantially a business division of such parent company.
- When an applicant was established through a divestiture of one business of the parent company, it is likely that the activities of the applicant merely relate to the performance of a part of business activities of the parent company and the business activities of the applicant company have been directed by the parent company, whereby the applicant cannot make any decisions on business activities at its discretion. The applicant company may also find it difficult to determine management policies or operation policies at its discretion which are necessary in continuously and freely carrying out its businesses because of the management policies of the parent company on related companies. In such cases, earnings which should be returned to the shareholders of the applicant company are likely to be impaired at the discretion of the parent company, and the applicant company is deemed to constitute only a business department of the parent company. Such companies are not appropriate as an investment choice offered to investors.
- Therefore in determining whether or not the applicant company constitutes a business department of the parent company, YSX will assess the following points and determine that the applicant company has capabilities to carry out its business activities at its discretion, the parent company has not impeded free business activities or management judgments of the applicant company and such likelihood is remote in the near future.
 - The positions of directors or officers of the applicant company concurrently held by those at the parent company are unlikely to impede the applicant company's own decisions;
 - The ordinary business operations of the applicant company have been carried out

under the applicant company' s own decisions and they are not necessarily directed by the parent company;

- There are no rules or procedures which require the prior approval of the parent company on the decision making of the applicant company;
 - The applicant company has its own capabilities, technologies or know-how to implement the market research, developments, design and planning for products; and
 - The applicant company has been carrying out price negotiations, new customer exploration, and activities to expand sales to existing customers by itself.
- Furthermore, if a company which carries out similar businesses of the applicant company exists in the corporate group of the parent company, etc. , it is expected that the parent company may leverage its controlling position to restrict or coordinate the business activities of the applicant company as the parent company strives to prefer the earnings of the group as a whole to those of the applicant company. In such cases, in consideration of the positioning of each group company on the basis of the nature and characteristics of the businesses (operating segments, customers and distribution channels) (the background for competitions among group companies, if any), the reasons why the applicant company implements management independent of the parent company and the nature of business coordination made by the parent company, YSX will assess whether the applicant company secures sufficient independence from the parent company such that it may not be exposed to undue business coordination of the parent company.
- YSX will confirm whether an applicant company or its parent company does not coerce or induce transaction which become disadvantageous to such parent company or the such applicant company such as transactions under markedly different terms from those of normal transactions (meaning a current market price)
- If the applicant company has accepted any secondment from the parent company, YSX will assess whether the state of receiving seconded persons of the corporate group of an applicant company is recognized not to excessively depend on the parent company, and whether the assignments of the seconded persons have not impeded the independence of management of the applicant company. If the seconded persons are assigned to positions as directors, officers or general managers who manage departments exposed to the influence of the parent company YSX will be concerned with such situations from the perspective of independence

3. Effectiveness of corporate governance and internal management system

(1) The system to ensure the appropriate execution of duties of directors or officers of the applicant company is recognized to be appropriately prepared and operated.

- YSX will evaluate whether the applicant company has designed appropriate corporate governance systems and implemented them effectively, mainly focusing on the design of organs and composition of directors/officers.
- YSX will confirm the background and reasons for the adoption of current systems and the composition of directors and officers in consideration of basic concept on corporate governance practices
- YSX will confirm whether decision-making organs like general meeting and board of directors meeting are operated appropriately and function effectively by minutes of such decision-making organs for past two years.

(2) The internal management system is recognized to be reasonably developed and appropriately operated to carry out effective management activities.

- YSX will confirm whether the applicant company has a well-organized management system and a necessary managerial and administrative system (including various internal rules; the same shall apply hereinafter) is developed and operated appropriately to secure efficiency of management activities and internal check-and balance functions of the applicant company
- The applicant company must have sufficiently designed and implemented management organization such that the corporate body as a listed company could appropriately and consistently perform its management activities. Also, the applicant company must develop and take appropriate measures to prevent incidents, fraud and errors while carrying out efficient management activities. In light of this, YSX executes examination on implementation and development of the management control organizations, accounting practices, budget control and internal audit, etc.

<Management Control Organizations and Accounting Practices>

- YSX confirms whether the principles for the applicant company to operate business in organizational manner are specified as internal rules; and the requirements of such rules, practical method and status of management control are appropriate in conjunction with the lines and types of business of the applicant company.
- The point is that the applicant company has appropriately designed and implemented systems in terms of organizations and regulations. Practically, for procurements, the applicant company has in place systems to reduce or stabilize procurement costs. For sales, the applicant company can appropriately assess the management conditions of customers, manage trades receivable from customers and manage assets such as materials and products at an adequate level. The examination also includes the assessment as to whether the applicant has in place organizations and regulations which enable the applicant company to implement relevant check and balance functions in order to prevent frauds or errors.
- In addition, YSX will evaluate the implementation thereof based on the flow chart for accounting works. Where internal rules are inconsistent with practices, rules need to be amended in accordance with practices if practices are appropriate. Otherwise, practices need to be improved in accordance with rules if measures specified in rules

are appropriate.

<Budget Control>

- For the status of budget control, YSX will evaluate whether the applicant company has developed consolidated and separate budgets on an organically and reasonable basis. In evaluating this issue, the point is that various budgets have been prepared for appropriate period and unit (distinction of annual, half-year, and quarterly, segments by lines of business, business divisions and products handled), in consideration of actual conditions of the applicant company.
- For the budget control, YSX will evaluate whether the applicant company appropriately analyzes the differences between budgets and actual results on a consolidated and separate basis, and has an organizational structure to deal appropriately with changes in management status and whether budgets are useful for effective judgments of management or reflected in subsequent business activities or budget compilation.

<Internal Audit>

- YSX will assess whether the internal management system to check the status of organizational operations and the compliance with regulations has been appropriately implemented. In this respect YSX will consider that the applicant company has developed the system to be implemented on a fair and independent basis.
- If the applicant company has special organizations for the internal management, YSX will evaluate whether the special organizations do not belong to any specific departments. When the applicant has no special organizations for internal management and has assigned staff members responsible for internal management, YSX will consider that the internal management over the department such staff members work for has been implemented such that it does not constitute any self-audit practices.

(3) The applicant company adopts accounting treatment standards adaptable to its actual condition, and a necessary accounting system is deemed to be developed and operated appropriately

- For the purpose of ensuring credibility for financial report, YSX will assess whether the applicant company has appropriately performed routine practices including accounting treatment which constitutes the basis for the appropriate preparation of disclosure package and whether the applicant company has in place accounting organizations to make appropriate accounting treatment.
- First, based on business flow charts on important business activities, YSX will evaluate whether the applicant company has implemented accounting treatment in accordance with accounting standards or procedures included in its accounting regulations, etc. While checking evidence documents for accounting process and some samples from accounting books, if it is found out that actual practices deviate from the regulations, YSX staff proceeds with the examination carefully with reference to views of applicant's accounting auditors.
- YSX will confirm that accounting standards (for recognizing sales, recognizing costs, evaluating assets, depreciation, recognizing deferred assets and recognizing allowances, etc.) are responsive to actual conditions of applicant and that the application thereof is not arbitrary.
- For accounting organizations, YSX will evaluate whether relevant check and balance functions work properly, and whether the accounting practices do not excessively depend on experiences and skills of certain individuals.

(4) It is recognized that an effective system to comply with laws and regulations is prepared and operated appropriately, and that no material breach of laws and regulations has recently been made.

- YSX will assess whether the applicant company has in place systems to ensure the compliance practices in order to comply with laws and regulations concerning management activities and other matters, and that no material breach of laws and regulations has recently been made, and no act which is likely to become a material breach of laws and regulations in the future is being carried out.
- YSX will confirm the laws and regulations related to the management activities of the applicant company and the administrative instructions issued by competent ministries and agencies. Then YSX will evaluate that the items subject to the internal audit and items audited by auditors have properly included the items required by laws and regulations.
- Meanwhile, if the applicant company committed a breach of laws and regulations in the past, YSX will carefully evaluate the status of remedies of legal defects associated with such breach and the design and implementation of systems to prevent any reiteration of such event.

4. Appropriate Disclosure of Corporate Information, etc.

(1) The applicant is in a status where any corporate information including facts which have a significant impact on the management has been managed and disclosed in a timely and appropriate manner. The system to prevent any insider trading has appropriately been designed and implemented.

- YSX will assess whether the applicant company can manage corporate information which may significantly affect investment decisions of investors and disclose such information in timely and appropriate manner after listing as well as whether the applicant company has systems in place for appropriately managing information until it is disclosed in order to prevent any insider trading.

<Management System to Disclose Significant Corporate Information>

- Section 13 of Securities Listing Business Regulations stipulates that “A listed company shall fully recognize that the timely and appropriate disclosure of corporate information lie at the foundations of sound markets and shall faithfully execute business, conducting speedy, accurate, and fair disclosure of corporate information and financial information from the investor perspective”. YSX will assess whether the applicant company can develop management system to disclose significant corporate information and financial information in timely and appropriate manner after listing.

<Management System to Prevent Insider Trading>

- A company staff, etc., who could get in touch with corporate information before disclosure to recognize information thereof, will violate laws and regulations if he or she trades shares, and the reputation of applicant company will be seriously damaged. Therefore an organizational structure must be developed to prevent such insider trading. YSX will assess the following issues:
 - Whether the applicant company has adopted regulations on the management of insider information or prevention of insider trading;
 - Whether the requirements of such regulations are appropriate in the context of laws and regulations;
 - Whether the applicant company has provided or expects to provide sufficient education and training to directors, officers and employees in terms of the prevention of

insider trading; and,

- Whether directors, officers and persons charged with the prevention of insider trading or with information control are sufficiently aware of the significance of regulations on insider trading

(2) Documents for the disclosure of corporate information have been prepared in accordance with laws and regulations, and have prominently described any items which may potentially have significant effect on investment decisions of investors, items to be considered as risk factors and items to be regarded as significant premises for business activities, in an understandable manner

- YSX will assess whether the applicant company has fairly prepared disclosure documents on which investors base their investment decision in accordance with relevant laws and regulations etc. and whether the descriptions in the disclosure documents reflect the actual conditions of the applicant company in a faithful and understandable manner, such that they would not mislead investors.
- YSX will assess whether significant information of the applicant company, concerning financial conditions, financial results, directors and officers, major shareholders and related companies, etc., is described appropriately.
- If there are permissions or authorizations constituting premises underlying business activities of the applicant company (e.g., permission, authorization, license or registration, selling agent agreements or production entrustment agreements in relation to main businesses or products), YSX will assess whether there are description on the disclosure documents concerning following matters;
 - Description of such permissions or authorizations;
 - Effective period of such permission, etc.;
 - Events leading to cancellation or termination of such licenses, etc. when they are specified by laws and regulations, etc.;
 - The fact that no events giving rise to significant adverse effect on the continuity of such permissions and authorizations have taken place;
 - Effect on business activities in case of the occurrence of such events.
- When an applicant company has a parent company, etc., it is likely that the applicant company will be influenced by the parent company in various ways. Thus, information on the business relationship with the parent company, etc. would be useful for investors. Therefore, YSX will assess whether such relationship is described appropriately on the disclosure document according to the degree of materiality of influence. Thus, the applicant is required to describe the business relationships. Such description must include followings;
 - With respect to business relationships, the nature, amount, terms and conditions

thereof and the policy for determining such terms and conditions;

- In case of concurrent holding of positions, names and positions of directors or officers who concurrently hold other positions and the reasons for such concurrent holding,
 - In cases of acceptance of secondment, the number of seconded persons, their positions in the applicant and notion concerning the stable employment of employees in order to ensure stable business operations.
- Meanwhile, if there is any company in the corporate group of the parent company, etc. which carries out businesses similar to those carried out by the applicant company, YSX will assess the descriptions of the roles and position of the applicant company in the corporate group of the parent company, etc.

(3) Any transactions between related parties, etc. or adjustments for shareholding ratio have not distorted the disclosure of the substance of the corporate group.

- YSX will assess whether no transactions with or equity contributions to any company under the patronage of the corporate group have taken place such that the company information of the applicant company has been intentionally distorted.

<Transaction>

- No matter when unusual descriptions are detected with respect to various transactions during the business activities of the applicant company or anomalies in entries in lines items on financial statements are recognized, YSX will further examine the details. Also YSX confirms whether there are no transactions apparently conducted only to make the financial statements of the applicant company look better.

<Equity Contribution>

- YSX will first evaluate the equity composition of the corporate group of the applicant company. In this case, when 100% contribution is not made by the applicant company, YSX will check the background or reasons for such contribution by any entity other than the applicant company. If the result reveals that the reason for the contribution is not clear and the contribution is made only to circumvent the consolidation requirements for the applicant company, YSX may require the applicant company to improve the equity composition of the group so that the conditions of the corporate group of the applicant company may be disclosed appropriately.

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