

# Guideline for Listing Examination

May 2022

Yangon Stock Exchange

## Table of Contents

I	Listing Regulations in Yangon Stock Exchange .....	2
	<b>【Listing Criteria】</b> .....	2
	<b>【Securities Listing Business Regulations】</b> .....	4
	<b>【Enforcement Regulations for Securities Listing Business Regulations】</b> .....	6
II	Relevancy in Each Regulation .....	7
III	Check Items in the Substantive Examination .....	10
	1. Corporate continuity and profitability .....	10
	2. Soundness of Corporate Management.....	15
	3. Effectiveness of corporate governance and internal management system .....	21
	4. Appropriate Disclosure of Corporate Information, etc.....	28

# 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

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

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

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

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>&lt;Listing Criteria&gt;</p> <p>5. The business shall have <b>the stable basic income</b> and conduct in accordance with the existing laws.</p> <p>14. It shall have <b>business plan</b> containing business design, business process environment and the risk factors.</p> <p>17. It shall have <b>rational expectation to get a profit base upon stable revenue.</b></p> <p>&lt;Points of Substantive Examination&gt;</p> <p>(1) Lawful business operations and <b>structure to generate continuous profit.</b></p> <p>(5) A <b>business plan</b> considering the business model, business environment and business risks is prepared.</p> <p>(8) <b>Rational future estimates</b> of business profitability.</p>
<p>2. Soundness of corporate management (Check items in the substantive examination: pp15-20)</p>	<p>&lt;Listing Criteria&gt;</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 <b>act any deceptive manners</b> 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 <b>do any business which has the same interest carrying out by the public company</b>, 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>&lt; Points of Substantive Examination &gt;</p> <p>(2) Directors or persons equivalent thereto do not fall under any of the following:</p> <ul style="list-style-type: none"> <li>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</li> <li>b) A person who conducts acts that are contrary to the public interest.</li> </ul> <p>(7) <b>Continuous business operations</b> and ability to make <b>independent decisions</b>.</p>
<p>3. Effectiveness of corporate governance and internal management system (Check items in the substantive examination: pp21-27)</p>	<p>&lt; Listing Criteria &gt;</p> <p>10. <b>Book-keeping of accounts and auditing</b> 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>11. The company shall fulfill tax duties in accordance with existing tax laws of Myanmar.</p> <p>13. It shall set up <b>an effective system to comply with laws, rules and regulations</b> by appointing the compliance officer.</p> <p>16. It shall continuously operate and manage stably without any influence by keeping soundness of good <b>corporate governance, internal management and internal control system</b>.</p> <p>&lt; Points of Substantive Examination &gt;</p> <p>(4) A compliance manager is appointed and <b>an internal system is established for legal compliance</b>.</p>

Substantive Examination	Listing Criteria and Points of Substantive Examination
<p>4. Appropriate disclosure of corporate information, etc. (Check items in the substantive examination: pp28-31)</p>	<p>&lt; Listing Criteria &gt;</p> <p>12. <b>The disclosure of relevant corporate information and the facts that the public should be known, shall be disclosed</b> 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 <b>prevent the insider trading</b>.</p> <p>&lt; Points of Substantive Examination &gt;</p> <p>(3) Systems are established to <b>report matters that may have significant influence</b> 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 <b>an appropriate manner</b> and conduct prompt disclosure.</p> <p>(6) Internal systems to <b>prevent insider trading</b> 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 are recognized to be carried out stably and continuously.

- The examination based on this item will focus on actual status of corporate management including the evaluation 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 in light of the status of purchases, production and sales (explaining about the manufacturing industry as an example in this paragraph; the items to be examined will be different depending on the category and the kind 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.
- As for procurement, the examination point is whether the applicant can procure the required quality and volume of items in a timely manner and whether the applicant conducts procurement effectively.
- As for production, the examination point is whether the applicant has organizations and systems to produce products with sufficient quantity which may not hamper continuous sales activities and with sufficient quality which should not impair the confidence of customers in products, and how the applicant keeps competitiveness in the production technology and the production efficiency.
- When the applicant outsources a part of production activities, YSX will evaluate whether the applicant has selected a good consignee.
- As for sales, YSX will confirm whether the applicant can keep its competitiveness and profitability by investigating the sales method, the sales share for each product per region and

user, and the trend in demand. Also, YSX will confirm whether the relationship with major customers has been well maintained or whether any customers are suffering from financial difficulties. If the business relationship with a customer is deteriorating, YSX will more closely examine how the reduction or termination of business with the customer will affect the corporate group of the applicant or how the applicant can compensate for losses arising from such situation. YSX will also assess whether any factors in relationship with customers are likely to impede the continuous operations of business after listing.

- From the viewpoint of soundness of assets, YSX will confirm how the applicant controls and collects accounts receivables.
- YSX will examine the conditions of the industry which the applicant belongs to (including characteristic of the industry and market size) and the applicant's competitiveness in the industry (including competition status, rank in the industry and market share). The examination point is whether the marketability of the products is not declining and whether the products have the feature to continuously obtain demands from the market. If the market share of the products of the applicant is decreasing, YSX will confirm the reason, outlook and countermeasures to tackle the situation.

#### <Investment Activities>

- YSX will confirm whether investment activities such as capital investment and business investment, etc. of the applicant do not hinder continuous management activities in light of the trend and future outlook of investment
- Specifically, YSX will assess whether the applicant 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 achieve expansion in business and whether the applicant has sufficiently considered its cash flow plan and investment recovery plan when it is going to make investment in new business.

#### <Financial Activities>

- YSX confirms whether financial activities like fundraising actions of the applicant do not hinder continuous management activities in light of the trend and future outlook of the financial status
- Specifically, YSX will assess the outlook in fundraising activities to realize the business expansion and the planned investments based on the financial conditions of the applicant. In addition, if the amount of borrowing is likely to increase continuously because of the planned capital expenditures, YSX will assess whether financial conditions are unlikely to significantly affect the business continuity, considering into trends in the industry, business relationship

between the applicant and banks, and the fundraising plan including capital increase through public offering after listing.

<Permission or Approval>

- If the business of the applicant requires any permission or approval, etc. (meaning permission, approval, license, registration, sales agent agreement or production entrustment agreement pertaining to main business, products or services; the same shall apply hereinafter.), YSX will assess whether the applicant will be able to continuously obtain or renew such permission or approval. When the main business of the applicant requires permissions or approval from the government or largely depends on a sales agent agreement or a production entrustment agreement with a specific business partner, such business is unlikely to continue when the permission, approval or agreement is terminated or cancelled. Therefore, YSX will assess whether any signs of such cancellation or termination have not been detected.

( 2 ) The business plan of the applicant 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 has been prepared through appropriate processes.
- YSX will confirm the characteristics (strength and weakness) of business model and the profit-making structure of the applicant with reference to, but not limited to, factors in prior years which gave rise to changes in the financial results. YSX will mainly assess whether the business plan exhaustively reflects various factors, such as the industry environment, the status of competitors, the market size, the market price, the trend in demands for products/services, trends in raw materials market, the status of major customers and the status of relevant laws and regulations, to be considered in the business development.
- YSX will also confirm the profit plan, sales plan, procurement and production plan, capital investment plan, personnel plan of the applicant, and assess whether those plans are consistent with each other.
- YSX will confirm whether the business plan has been developed reasonably through the organizational process of the applicant, instead of deciding the plan only by the direction of a specific managerial personnel, department or division.

(3) The applicant is reasonably expected to record profit stably in the current and next financial years;

- YSX will evaluate whether the applicant is reasonably expected to record profit stably for a certain period after listing. The word “a certain period” principally means two financial years including the year of the listing application. However, if the applicant expects any events likely to significantly affect the performance of the applicant (e.g. amendment of statutory regulations, large capital expenditure plan, etc.) after the second financial year, YSX will confirm such event as well.
- When the performance of the applicant declines, and its revenue and profit are decreasing, YSX will examine the basis for the expectation that the applicant can continuously record profit after listing. In practice, YSX will evaluate the break-even point and the basis for the expectation that the applicant can go over the point, as well as the stability of main business segments. When the profit or loss of the applicant fluctuates due to extraordinary events or reasons, YSX will take such events into consideration.

## 2. Soundness of Corporate Management

(1) The applicant is not deemed to give or enjoy profit wrongfully through transactions or any other management activities with related parties.

- Since transactions (including not only ordinary business transactions but also finance transactions and lease transactions of real estate, etc.) with related parties (meaning a director of the applicant, a relative, a company belonging to the same group as the applicant (a parent company, a subsidiary, a subsidiary of the subsidiary and an affiliated company) and other specific persons; the same shall apply hereinafter) are regarded as transactions with persons having special relationship, there is a concern that the applicant is forced to enter into unnecessary transactions or the terms and conditions of the transactions may be distorted. Therefore, when any related party transactions occur, the applicant is required to consider whether such transactions are reasonable (necessary for the business) and the terms and conditions are adequate. YSX will confirm whether benefits of the corporate group of the applicant are not lost wrongfully because related parties give priority to their own benefits
- The following cases are, for example, considered reasonable to continue the transaction:
  - where the applicant continues the transactions from the time before starting preparation for listing and finds it difficult to get an alternative counterparty; or
  - where the applicant finds it difficult to get another counterparty who can provide more favorable conditions of the transactions.
- The managerial persons of the applicant must be able to clearly explain that the transactions are reasonable and appropriate, not for the benefit of themselves as persons, but for the applicant as a corporate body. This is one of the important factors to assess that the transactions are not considered as corrupt supplies of profit. Especially, it might not be questioned before listing whether the purpose of transactions is for the corporate body or its owner as a person because the ownership and management of the company haven't been separated so sharply yet. However, once the applicant has become a listed company with a large number of general shareholders, it is necessary to separate the assets of the company from those of the owner clearly, and all transactions must be consistent with the benefit of all shareholders including ordinary individual shareholders.
- 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 the applicant has developed an appropriate system where such transactions are considered in an organizational manner and controlled under an appropriate check-and-balance structure.

<Restructuring subsidiaries and associates >

- When the applicant has subsidiaries and associated companies, YSX will confirm the investment ratio in those companies. If there is a company in which the applicant doesn't provide 100% investment, YSX will confirm a reasonable ground why the company accepts investment from other companies. YSX may require the applicant to improve the investment ratio as necessary. For example, in a case where the founder of the applicant personally makes investment in a subsidiary of the applicant but doesn't have any commercial relationship with the subsidiary, YSX will recognize that there are no reasonable ground for the founder's investment and require the improvement.

<Compliance with RPT Instruction >

- YSX confirms whether the applicant has established the internal structure in accordance with SECM Instruction No. (3/2020) "Instruction on Material Related Party Transactions for Listed Companies and Public Companies with More than One Hundred Shareholders".

**【Reference】** Follows are the extracts of relevant provisions from SECM Instruction No. (3/2020).

- Any material RPTs\* should be approved by Board of directors. Related parties interested in the transaction shall not participate in any discussions about whether or not to approve the related party transaction, decision making regarding the transaction, and deliberations on how the company should manage the transaction after a decision.
- The Board of directors shall have the overall responsibility in ensuring that transactions with related parties are handled in a sound and prudent manner. with integrity, at arm's length and are reasonable in the circumstances, and in compliance with applicable laws and regulations to protect the interests of company's shareholders and other stakeholders. To this end, the Board shall:
  - i) Approve material related party transactions. For aggregate RPT transactions within a twelve (12)-month period that breaches the materiality threshold, Board approval would be required for the transaction(s) that meets and exceeds the materiality threshold;
  - ii) Ensure that management and relevant employees are adequately trained so that they can identify and report the related party transactions to the Board and authorized Executive Officers;

- iii) To develop a properly articulated and transparent delegation of authority framework for the review and approval of RPTs below the materiality threshold mandated by SECM in section 3 (i) of this Instruction;
  - iv) Appoint and oversee the authorized officer responsible for identification and disclosure, if required, of related party transactions.
- The Board of directors shall adopt a material RPT policy. The material RPT policy shall include the following:
- i) Identification of related parties: The policy shall clearly identify persons and companies that are considered as the company's related parties.
  - ii) Materiality thresholds: The policy shall include a materiality threshold that shall in no case exceed the threshold mandated by SECM in section 3(j) \* of this Instruction.
  - iii) Approval of transactions below the materiality threshold: Each company shall set up a procedure on how the transactions below materiality threshold are reviewed and approved.
  - iv) Identification of conflicts of interest: The policy shall cover the identification and prevention or management of potential or actual conflicts of interest which may arise out of or in connection with the RPTs. Directors, Executive Officers and substantial shareholders with personal interest in the transaction shall abstain from the discussion, approval and management of such transaction or matter affecting the company;
  - v) Disclosure requirements: The members of the Board, Executive Officers and substantial shareholders shall fully disclose to the Board of directors all material facts related to material RPTs as well as their direct and indirect financial interest in any transaction or matter that may affect or is affecting the company.
- Each company shall maintain the register of related party transactions at its registered office in the form specified in Annex 1 to this Instruction.

\* Material RPT defined in 3(j) of this Instruction:

Material Related Party Transactions mean any related party transaction/s, either each transaction or total of all transactions over a twelve (12) month period, amounting to or more of five percent (5 %) of a company's total assets as per the last audited annual financial statements of the company or one hundred (100) million Kyats, whichever is higher.

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

- YSX will confirm whether the mutual relationship of relatives of directors and officers of the applicant, its composition, actual working situation or the state of concurrent posts as officers and employees, etc. with any other companies, etc. are recognized not to impair the fair, faithful and full execution of office duties.
- A company with an unbalanced composition of directors or officers (namely, a company in which family members or relatives account for a large portion of members of Board of Directors or officers) is likely to be exposed to a strong influence of the family. In that case, YSX will assess whether the interest of directors/officers from the family is not likely be more prioritized than that of the applicant as a corporate body, in consideration of the background for the election of directors/officers, the status of the business activity/performance of those directors/officers and the status of transactions between the applicant and the family. YSX will also assess whether the applicant doesn't make any decisions just for the benefit of the family, and whether the correctness of the decision-making process of the applicant is not distorted by the family.
- If a director or officer of the applicant holds any concurrent positions as director or officer at another company, YSX will assess whether he/she can perform his/her duties to supervise business and activities of the applicant properly by checking the status of attendance at Board of Directors meeting and other evidences as necessary. As for full-time directors/officers, YSX will assess whether they can execute their daily business smoothly, and secure correctness in their decisions. If the applicant has transactions with the other company, YSX will assess in the listing examination whether the applicant has a governance structure in place to exercise an appropriate check-and-balance system on such transactions and whether the applicant falls into any disadvantageous situations.

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

- Where an applicant has a parent company (including a parent company and a company belonging to the corporate group of the parent company; the same shall apply hereinafter), YSX will confirm whether the applicant secures independence from the parent company to ensure the rights and benefits of the minority interests of the applicant.
- In light of the relation between the business of the applicant and that of the parent company, the state of business adjustment made by the parent company and the probability of such adjustment, YSX will confirm whether the applicant is not recognized to be substantially a business division of the parent company.
- When the applicant was established through a spin-off of a certain business segment from its parent company, the applicant is likely to perform business just as a part of business activities of the parent company, following instructions from the parent company, without making any decisions on business activities at its discretion. The applicant may also find it difficult to determine management policies or operation policies, which are necessary for continuous and independent business, at its discretion because of the inconsistency with parent company's management policies on subsidiaries and associates. In such cases, the profits attributable to shareholders of the applicant are likely to be impaired at the discretion of the parent company, and the applicant is recognized just as a certain business segment of the parent company. A company like this is not considered appropriate as an investee offered to investors.
- To examine whether the applicant is considered just as a certain business segment of the parent company, YSX will assess the following points to make sure that the applicant has the capacity to carry out business activities at its discretion, and the parent company has not impeded or is not expected to impede independent business activities or management decisions at the applicant.
  - whether the concurrent position of a director/officer at the applicant and the parent company is unlikely to impede independent decision making at the applicant
  - whether the daily business operations at the applicant are carried out by the applicant's own decisions and whether the business activities are not totally controlled by the instructions from the parent company;
  - whether there are no rules or procedures which require the parent company's prior approval on the decision making of the applicant;
  - whether the applicant has its own capacity, technology and know-how to conduct market

research, product developments and product design; and

- whether the applicant has been carrying out major business activities such as price negotiations, new customer developments, and sales promotion to existing customers by itself.
- If the corporate group of the parent company contains a company which carries out similar business to the applicant, the parent company is likely to, from the dominant position in the group, to restrict or adjust business activities of the applicant in order to prioritize the profits of the group as a whole rather than the profits of the applicant. In such cases, in consideration of the position of each company in the group based on the nature and characteristics of business (business segment, customers and distribution channels), the background for competitions among companies in the group (if any), the reasons why the applicant exists as an independent company and the nature of business adjustments made by the parent company, YSX will assess whether the applicant secures sufficient independence from the parent company in order to exclude any inappropriate business adjustments by the parent company.
- YSX will confirm whether the applicant or the parent company does not coerce or induce disadvantageous transactions to one of them: with totally different conditions from normal transactions or at a totally different price from the market price.
- If the applicant has accepted any dispatched personnel from the parent company, YSX will assess whether the human resources are not too much dependent on the parent company. YSX also assesses from the status of personnel assignments whether the independence of management of the applicant has not impeded. If the dispatched persons are assigned to directors, officers or senior managers in charge of departments exposed to the influence of the parent company, YSX will be concerned 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 is recognized to be appropriately prepared and operated.

- YSX will evaluate whether the applicant has established the corporate governance system appropriately and whether the system functions effectively, mainly focusing on the organizational structure and the composition of directors/officers.
- YSX will confirm the contents of the draft of Corporate Governance Report and Independent Director Notification which are submitted from the applicant at the time of the listing application and assess whether the applicant has designed the organizational structure and the board member composition in line with the provisions of SECM Notification No. (2/2020) “Notification on Requirements for Effective Corporate Governance”
- YSX will confirm the background and reasons for adopting the current system and the composition of directors and officers in consideration of the basic concept on corporate governance of the applicant.
- YSX will confirm whether decision-making bodies like shareholders’ meeting and board of directors meeting function effectively by checking minutes for the past two years.

〈Compliance with Corporate Governance Notification〉

SECM Notification No. (2/2020) specifies the corporate governance structure that listed companies must establish, and YSX confirms whether the applicant complies with those provisions.

【Reference】 The following corporate governance structure is required to listed companies by SECM Notification No. (2/2020)

(1) Facilitation of shareholder’s rights	<ul style="list-style-type: none"> <li>• Facilitate exercise of voting rights by all shareholders including foreign investors, if any</li> <li>• Ensure that all shareholders access accurate and sufficient information in a timely manner so that they can effectively exercise their voting rights</li> <li>• Establish and disclose a policy on dividends</li> </ul>
--	--

(2) Independent director	<ul style="list-style-type: none"> <li>• A listed company must have at least one Independent Director at the Board of Directors.</li> </ul>
(3) Responsibility of the Board of Directors	<ul style="list-style-type: none"> <li>• To review and guide corporate strategy annual budget and business plan with consideration for long-term sustainable business growth</li> <li>• To oversee an internal control system including risk management policies and procedures to monitor and manage potential conflicts of interest</li> <li>• To ensure the integrity of the company's accounting and financial reporting systems and compliance with the law and relevant standards</li> <li>• To ensure timely and accurate disclosure on all material events regarding the company</li> <li>• To oversee the process of communications to engage with stakeholders</li> </ul>
(4) Board of Directors' meeting	<ul style="list-style-type: none"> <li>• The Board of Directors shall meet at least four times a year. The number of meetings and the attendance of every member shall be reported in the directors' report and the annual report.</li> <li>• Directors with multiple board representations shall give their sufficient time and attention to the affairs of each company.</li> </ul>
(5) Audit Committee	<ul style="list-style-type: none"> <li>• A listed company must have an Audit Committee.</li> <li>• The Audit Committee must be chaired by an Independent Director.</li> <li>• The Audit Committee shall be at least three Directors and shall not have an Executive Officer.</li> <li>• The Audit Committee shall meet once every three months and whenever convened by the Board of Directors.</li> <li>• The Audit Committee has the responsibility to: <ul style="list-style-type: none"> <li>– oversee appropriate accounting procedures and accounting controls for the company and supervise compliance with such procedures;</li> <li>– review the company's financial statements;</li> <li>– monitor compliance with the laws and regulations applicable to the company and report to the Board of Directors thereon; and</li> <li>– deliver opinions on any matters submitted to it by the Board of Directors.</li> </ul> </li> <li>• A listed company shall establish a system in order for the Audit Committee to discharge the responsibilities. Such a system includes: <ul style="list-style-type: none"> <li>– allocating adequate human resources to support the Audit Committee;</li> <li>– setting forth the reporting process to the Audit Committee; and</li> <li>– other systems to ensure the effectiveness of the Audit Committee.</li> </ul> </li> </ul>

<p>(6) Related party transaction</p>	<ul style="list-style-type: none"><li>• The Board of Directors shall review a policy on the materiality of related party transactions.</li><li>• The Board of Directors shall ensure all material related party transactions be disclosed in a timely manner.</li><li>• All material related party transactions shall require approval of the Board of Directors and any directors who have a potential interest in the concerned related party transaction shall abstain from voting on the approval.</li></ul>
--------------------------------------	--



( 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 has a well-organized management system and a necessary managerial and administrative structure (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.
- To conduct management activities appropriately, efficiently and continuously as a listed company, the applicant must have a well-developed administrative system in place and actually operate the system. Also, the applicant must take appropriate measures to prevent incidents, fraud and errors beforehand in order to prevent damages. In light of this, YSX examines how the applicant has developed systems like administrative structure, accounting practices, budget control and internal audit, and how those systems function actually.

<Administrative Structure and Accounting Practices>

- YSX confirms whether the applicant has stipulated internal rules about how to operate business in an organizational manner, whether the contents of those rules, the methods of corporate administration and the status of administration are appropriate and in line with the business contents and the nature of business and whether the applicant actually operates business in accordance with those rules and methods.
- The important point is to establish an organizational structure that can surely conduct the following activities and to stipulate internal rules including the following contents.
  - As for procurement, the applicant shall have a system in place to reduce or stabilize procurement costs.
  - As for sales, the applicant shall assess the status of management of customers and receivables from customers
  - As for assets, the applicant shall control the status of raw materials and inventory so that the quantity/amount of those assets can be controlled at an appropriate level.YSX will also focus on whether the applicant has in place the organizational structure and internal rules which ensure the check-and-balance function in order to prevent frauds or errors.
- In addition, YSX will evaluate the status how the applicant actually puts into practice the abovementioned business operations based on materials such as the flow chart for accounting procedures. In the case that the internal rules are inconsistent with the practice, rules need to

be amended in line with the practice, if the practice is appropriate. Otherwise, the practice needs to be improved in accordance with the rules if the measures specified in the rules are more appropriate than the practice.

<Budget Control>

- As for the status of budget control, YSX will evaluate whether the applicant has developed consolidated and unconsolidated budgets on an organizational and reasonable basis. This confirmation is focused on whether various kinds of budget have been prepared for appropriate periods and units (such as annual budget, half-year budget, quarterly budget, budget for each segment, budget of each department and budget of specific products/services) in consideration of the nature of business of the applicant.
- As for the budget control, YSX will evaluate whether the applicant appropriately analyzes the budget-actual difference on a consolidated and unconsolidated basis, has an organizational structure to deal with changes in the status of the corporate management as appropriate and takes such analysis into consideration for subsequent business activities and the budget compilation for the next year.

<Internal Audit>

- YSX will assess whether the internal audit system to check the status of corporate management and compliance with internal rules has been developed appropriately and whether that system is operated actually. In this respect, YSX will consider whether the applicant has developed the system in which the internal audit can be conducted from a fair and independent viewpoint.
- If the applicant has a specialized body for the internal audit, YSX will evaluate whether the body does not belong to a specific business department. When the applicant has assigned dedicated staffs responsible for internal audit without organizing a specialized body, the internal audit must not be conducted in a manner that it may be recognized as self-audit, even if some of those staffs belong to the auditee department.

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

- For the purpose of ensuring credibility of financial reports, YSX will assess whether the applicant has appropriately conducted business operations including accounting treatment which is one of the necessary conditions to prepare disclosure documents appropriately and has developed accounting structure to ensure appropriate accounting treatment.
- Based on business flow charts on important business activities, YSX will first evaluate whether the applicant has implemented accounting treatment in accordance with accounting standards and procedures specified by its internal accounting rules. While checking evidence documents for accounting process and some samples from accounting books, if it is found out that the actual practices deviate from the rules, YSX proceeds with the examination carefully with reference to views of the 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 the applicant and that those standards are not used in an arbitrary manner.
- As for the accounting structure, YSX will evaluate whether relevant check and balance functions work properly and whether the accounting procedures 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 confirm whether the applicant has developed effective systems to ensure the compliance with laws and regulations concerning management activities and other matters and actually operates those systems; and whether no material breach of laws and regulations has recently been made, or 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 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 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 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 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 has developed a system to disclose significant corporate information and financial information in a timely and appropriate manner after listing.

##### <Management System to Prevent Insider Trading>

- A company staff, etc., is considered to be in breach of laws and regulations if he or she trades shares based on corporate information before disclosure, and the reputation of the applicant will be seriously damaged. Therefore, the applicant must develop a system to prevent such insider trading. YSX will assess:
  - whether the applicant has internal rules on management of insider information and prevention of insider trading;
  - whether the contents of such rules are appropriate in light of laws and regulations;
  - whether the applicant makes efforts to completely prevent insider trading by providing education programs to directors, officers and employees; and
  - whether directors, officers and persons charged with prevention of insider trading or information control are 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 described any items which may potentially have significant effect on investment decisions of investors.

- YSX will assess whether the applicant has prepared disclosure documents, based on which investors make their own investment decision, in accordance with relevant laws and regulations and whether the contents of the disclosure documents reflect the actual conditions of the applicant in a faithful and understandable manner in order not to mislead investors.
- YSX will assess whether significant information of the applicant, such as financial conditions, financial results, directors/officers, major shareholders and subsidiaries/associates, is described appropriately.
- If major business activities of the applicant are based on permissions or approval, etc. (meaning permission, approval, license, registration, sales agent agreement or production entrustment agreement pertaining to main business, products or services), YSX will assess whether there are descriptions on the disclosure documents concerning following matters;
  - contents of such permissions or approval etc.;
  - effective period of such permissions or approval, etc.;
  - events leading to cancellation or termination of such permissions or approval, etc., in case where such events are specified by laws and regulations;
  - the fact that no events giving rise to significant adverse effect on the continuity of such permissions and approval, etc. have taken place; and
  - expected effects on business activities in case of the occurrence of the abovementioned events.
- When an applicant has a parent company, the applicant is likely to be influenced by the parent company in various ways, and information on the business relationship with the parent company 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. Such description must include following items;
  - with respect to business relationships, the nature, amount, terms and conditions of transactions and the policy for determining such terms and conditions;
  - in case of relationships like holding concurrent positions, name and positions of directors/officers and the reason for holding concurrent positions; and
  - in case of acceptance of secondment, the number of dispatched persons, their positions in the applicant and the applicant's policy concerning the stable employment of employees in order

to ensure the stability in business.

- Meanwhile, if any companies in the corporate group of the parent company carry out similar business to the applicant, YSX will assess the contents of the description about the roles and the position of the applicant in the corporate group.

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

- YSX will assess whether the applicant hasn't engaged in transactions in a manner such that corporate information of the applicant has been intentionally distorted or conducted arrangements in the investment ratio in another company under the same corporate group.

<Transaction>

- When unusual descriptions are detected with respect to various transactions during the business activities of the applicant or when anomalies in transfers of items on financial statements are recognized, YSX will further examine the details to confirm whether there are no transactions apparently conducted only to make the financial statements look better than the actual status.

<Investment Status>

- YSX will first evaluate the shareholding ratio of the applicant in another company in the same the corporate group. In this case, when the applicant doesn't hold 100%, YSX will check the background or the reason for not being 100%. If the reason why the investee has other shareholders than the applicant is not clear (in the case, for example, where the applicant intends to remove a poorly performing subsidiary from the consolidated base), YSX may require the applicant to improve the shareholding structure of the corporate group so that the actual status of the group can be disclosed appropriately.

-End-