



## **WHERE TO, CATALIST?**

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## EXECUTIVE SUMMARY

In this study, we examine the differences between the Mainboard and Catalist in terms of admission criteria and process, listing rules and the characteristics of companies listed on them. We then look at 23 companies that have transferred from the Mainboard to the Catalist since 2015. We also examine whether the performance and liquidity of companies that transferred improved or deteriorated after they transferred.

The following are our key findings:

- A total of 21 Catalist issuers have transferred to the Mainboard since 2008, but only six have done so since 2014. In contrast, 24 Mainboard-listed companies have transferred to the Catalist since 2014, with 23 doing so since 2015.
- Eight of the 23 companies that transferred from the Mainboard to Catalist since 2015 were already on the Watch-list based on the Financial Entry Criteria and/or Minimum Trading Price (MTP) Criteria at the time of transfer. The remaining 15 transferring companies were all at risk of being placed on the Watch-list for either or both of these criteria.
- On average, the transferring companies had poorer corporate governance than other Mainboard and Catalist companies, lower profitability than other Mainboard companies, and lower growth potential than other Mainboard and Catalist companies.
- Although only eight of the 23 transferring companies were already on the Watch-list at the time of transfer, by the time of our study, another nine companies that transferred to Catalist would likely have been placed on the Watch-list based on Financial Entry or MTP criteria had they remained on the Mainboard. Avoiding the Watch-list was the clearest benefit to the companies that transferred to the Catalist.
- Eight companies benefitted from not having to seek shareholder approval for major transactions that exceeded the thresholds in the Mainboard rules following their transfer, two companies made pro-rata issues of shares that exceeded the 50% limit under the Mainboard rules, while one exceeded the limits for share/share option schemes under the Mainboard rules. Other companies that have transferred may also utilise the more liberal Catalist rules in due course.
- Twelve of the 23 transferring companies have seen their average net income worsen. Also, 15 companies experienced a fall in their share price following their transfer to Catalist, while the share liquidity of 16 companies also worsened. Six companies saw all three measures worsen,

while only two saw all three measures improving. Therefore, in most cases, transferring to Catalist did not help the companies.

- In January 2016, SGX clarified and tightened the criteria for transfers from the Mainboard to Catalist, especially for loss-making companies. Companies that transferred after SGX tightened the criteria were on average making lower losses, although it was not clear that their overall quality was better because their share price performance, share liquidity and corporate governance were on average actually worse than those that transferred earlier. While more companies that transferred earlier saw their net income, returns, share liquidity and corporate governance worsen, more companies that transferred later saw these measures improve, except for share liquidity which also tend to worsen. However, we caution that this additional analysis is based on a very small number of companies in each group and therefore the findings may not be conclusive.

Based on the findings in this study, the following are our recommendations:

**Recommendation 1:** SGX should consider disallowing companies from transferring from the Mainboard to Catalist. If allowed, transfers should only be on an exceptional basis after a thorough review by SGX.

**Recommendation 2:** Companies that are allowed to transfer to Catalist should be closely-monitored after their transfer. SGX should continue to maintain direct oversight of these companies for some time after their transfer, instead of relying on continuing sponsors. Areas of scrutiny should include transferring companies' financial performance after their transfer, corporate governance, and the utilisation of more flexible Catalist rules.

**Recommendation 3:** Transferring companies should be required to continue to comply with applicable Mainboard rules for at least a reasonable specified period, with exemptions granted only on an exceptional basis.

**Recommendation 4:** SGX should review whether differences between the Mainboard and Catalist continuing listing obligations are justified, bearing in mind the need to balance greater flexibility for growth companies and investor protection.

SGX relies significantly on full sponsors and continuing sponsors under the sponsor-based regime of Catalist. We hope to publish a further report later this year on the sponsors and issues relating to them.

## 1. INTRODUCTION

The Catalist board, established in November 2007 as the successor of SESDAQ, is one of the two boards of the Singapore Exchange (SGX) and modelled after the London's Alternative Investment Market (AIM). Similar to AIM's system of regulation through nominated advisors, Catalist is a sponsor-based regime. Its name reflects its vision of being a platform that catalyses the growth of young companies by giving them access to financing, and hopefully a transfer to a listing on the Mainboard. However, over time, the objective of Catalist seems to have changed somewhat as SGX now sees the Catalist board as providing “greater flexibility for a company to raise funds either to implement its growth strategy **or to improve its financials**” (emphasis ours).

The growth in Catalist listings has outstripped the growth in Mainboard listings, particularly over the last five years. Between 2014 and 2018, the percentage of all IPOs accounted for by Catalist issuers increased from 60% to 80% (and was as high as 86%), and the percentage of issuers listed on Catalist has increased steadily from 20% to about 29%. This is also partly due to delistings from the Mainboard accounting for more than 90% of all delistings in each of those years (except 2016, when it accounted for 86%).<sup>1</sup>

However, these numbers do not necessarily tell the whole story about the success or otherwise of Catalist. Since 2008, only 21 Catalist issuers have transferred to the Mainboard, with only six having done so since 2014. The goal of Catalist being a “stepping stone” to the Mainboard has arguably not been realised. In fact, there are more companies moving from the Mainboard to Catalist, with 24 having done so since 2014, starting from one company in 2014, to eight in each of 2015 and 2016, with another five and two doing so in 2017 and 2018 respectively. About 11% of all Catalist listings today are companies that have moved down from the Mainboard. Five other Mainboard issuers have applied to transfer to Catalist over the same period, but these have not eventuated.

Companies can choose to list on either board. While some companies may not meet the admission requirements for the Mainboard, those that do can nevertheless choose to list on Catalist. Further, those already listed on Catalist that meet the Mainboard requirements can remain on Catalist.

There are certain potential benefits of a Mainboard compared to a Catalist listing. First, CPF funds can only be used for investing in Mainboard companies, which increases the pool of potential retail

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<sup>1</sup> These statistics are based on the market summaries published by SGX.

investors, which may in turn positively affect the valuation and liquidity of Mainboard companies. Second, Mainboard issuers do not have to appoint a continuing sponsor and therefore do not have to incur a recurring fee for the sponsor. Third, a Mainboard listing may have more prestige, better analyst coverage, greater institutional investor interest, and so on.

However, a Catalist listing has its attractions. The admission requirements are less demanding and the listing process faster, with less involvement of SGX in vetting listing applications. Further, the initial and annual listing fees are lower, which may help offset the cost of a continuing sponsor. In addition, the continuing listing rules are less stringent in certain areas, such as the absence of a Watch-list, number of Singapore-resident independent directors for foreign issuers, general share issue mandate, share and share option schemes, major transactions, and very substantial transactions or reverse takeovers. These reduce the risk of a mandatory delisting, provide more flexibility, allow companies to execute transactions more speedily, and lower compliance costs.

Catalist's less stringent rules means that companies that meet the Mainboard requirements may choose to list or remain on Catalist. Further, Mainboard companies that are at risk of being placed on the Watch-list, or that plan to undertake transactions where the Catalist rules are more liberal, may opt to transfer to Catalist.

Over time, these developments may have a debilitating effect on the overall quality of Catalist and harm liquidity and valuations of companies listed on it. In the longer term, this may also make the Catalist board unattractive for genuine growth companies.

In this study, we first examine the differences between the Mainboard and Catalist in terms of admission criteria and process, continuing listing rules and the characteristics of companies listed on them. We then look at the companies that have transferred from the Mainboard to the Catalist since 2015 to understand their characteristics (performance, liquidity and corporate governance) and to determine if they appear to be indeed trying to avoid the more stringent requirements of the Mainboard (or conversely, exploit the more liberal rules on Catalist). We also examine the performance and share liquidity of companies following their transfer and conclude with some recommendations.

## 2. DIFFERENCES BETWEEN THE MAINBOARD AND CATALIST RULES

In this section, we examine more closely the admission criteria, continuing obligations and financial characteristics for companies in the Mainboard and Catalist.

### 2.1 ADMISSION PROCESS AND CRITERIA

Figure 1 illustrates the criteria and process for listing on the two boards.

#### 2.1.1 QUANTITATIVE REQUIREMENTS

Mainboard issuers are subject to stricter quantitative listing conditions than those on Catalist, in terms of their public float and financial performance.

Table 1 summarises the public float requirements for Mainboard issuers under Rule 210(1). Depending on the market capitalisation, the required public float ranges from 25% for market capitalisation below S\$300 million to 12% for market capitalisation exceeding S\$1 billion. In contrast, Rule 406 of the Catalist rulebook only requires its issuers to achieve a public float of 15% at the time of listing. The rules also provide that for the initial public offering (IPO), investors in Mainboard companies should have at least S\$500 worth of shares each, while those investing in Catalist companies only need to hold S\$200 of shares.

**Table 1. Public float requirements of Mainboard issuers**

Market capitalisation	Required public float
Below S\$300 million	25%
From S\$300 million to S\$400 million	20%
From S\$400 million to S\$1 billion	15%
Above S\$1 billion	12%

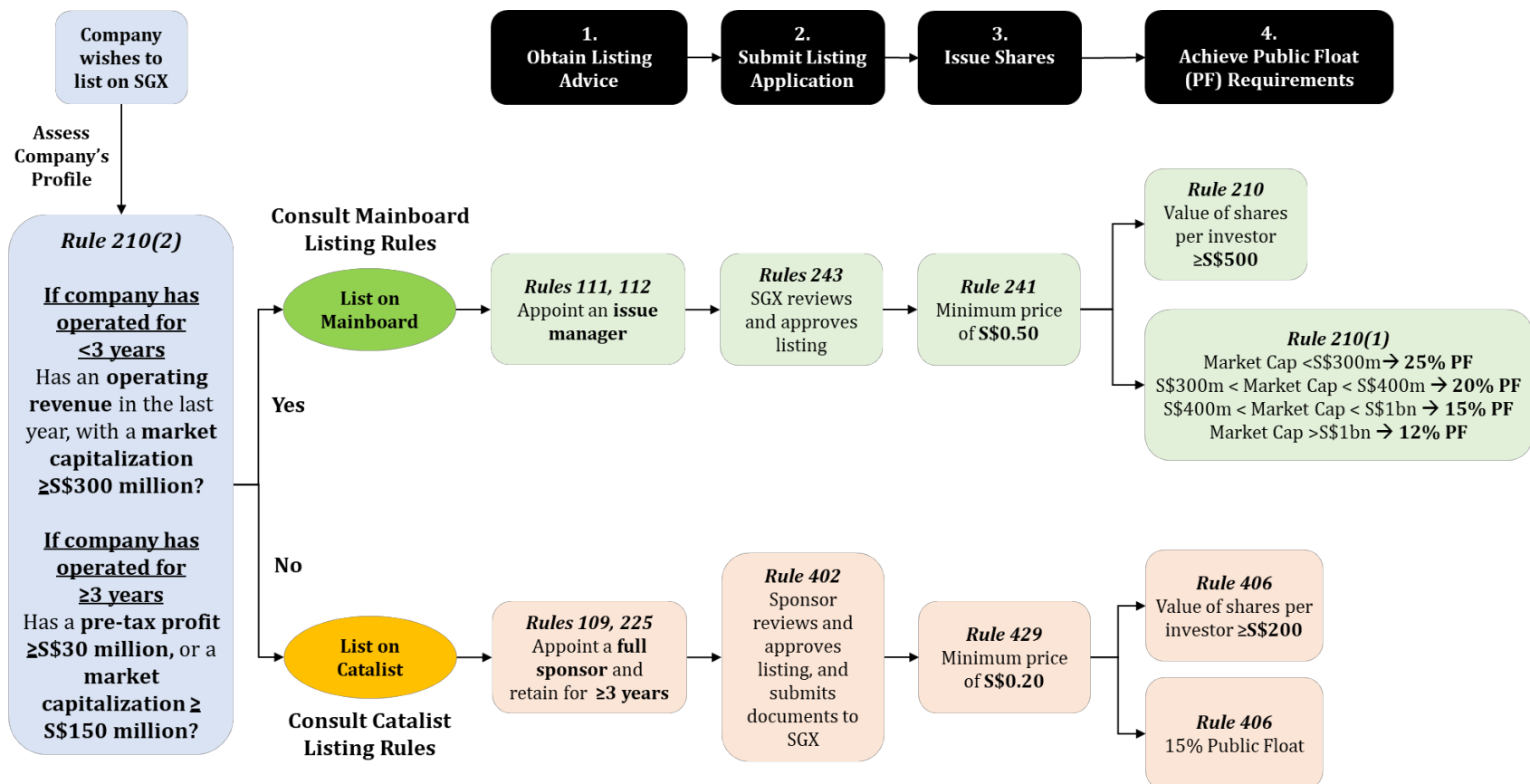


Figure 1. Admission criteria and process for Mainboard and Catalyst

In terms of financial performance, Rule 210(2) of the Mainboard rulebook provides that issuers should have a minimum pre-tax profit of S\$30 million or a market capitalisation of S\$150 million. In contrast, Rule 406(2) of the Catalist rulebook does not require issuers to meet any such requirements – unprofitable companies and companies with low market capitalisations may still list on Catalist.

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### ***2.1.2 LISTING PROCESS***

According to Rules 109 and 110 of the Catalist rulebook, Catalist companies are required to appoint a full sponsor, which will advise them on their obligations to comply with the Catalist listing rules at the time of their IPO. In contrast, Mainboard companies are required to appoint an issue manager at the time of the IPO.

For the Mainboard, SGX reviews the offer documents and decide if a prospective issuer should be admitted. For Catalist, however, appointed sponsors review and approve listings, and then submit preliminary offer documents to the SGX. According to SGX, it still retains the absolute discretion to impose conditions, delay or refuse an admission.

This difference in the review process could lead to a faster listing on Catalist but also means greater reliance on the sponsor and less regulatory oversight for Catalist listings.

## **2.2 CONTINUING LISTING OBLIGATIONS**

Rule 746(1) of the Catalist rulebook states that issuers must retain their full sponsor for at least 3 years after their admission to Catalist. They are also required to retain a continuing sponsor for as long as they remain listed on Catalist. Mainboard companies are not required to retain a continuing sponsor.

Catalist companies which are foreign issuers only need to have one independent director (Catalist Rule 406(3)(c)) who is resident in Singapore, compared to two for Mainboard companies (Mainboard Rule 221).

There are also other differences in continuing listing requirements between the two boards, with five key areas of significant differences which we have identified – the issuance of shares, share option schemes, major transactions, very substantial acquisitions and takeovers, and the SGX watch-list.

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### ***2.2.1 ISSUANCE OF SHARES***



Catalist allows companies to issue more shares under an annual general mandate passed by the company's shareholders, compared to the Mainboard.

For pro-rata issue of shares, Rule 806(2) in the Mainboard rulebook limits this to 50% of the company's existing total shares, while the limit under Rule 806(2) of the Catalist rulebook is 100% of the existing total shares. For non pro-rata issue of shares, the limits for Mainboard and Catalist issuers are 20% and 50% respectively. For Catalist issuers, even greater flexibility is allowed if the general mandate is passed by a special resolution, with a limit of 100% for both pro rata and non-pro rata share issues.<sup>2</sup>

Catalist issuers may therefore issue more shares than their Mainboard counterparts without calling for an extraordinary general meeting (EGM). While this allows them to raise additional capital more expediently – possibly to capitalise on growth opportunities – it also increases the dilution risk for existing shareholders.

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### ***2.2.2 SHARE OPTION SCHEMES AND SHARE SCHEMES***

Under the Catalist rules, issuers have more leeway in the size of their share option schemes and share schemes for management and directors.

Rule 845 of the Mainboard rulebook states specific limits that share option schemes and share schemes cannot exceed. The total amount of shares issued for all schemes must not exceed 15% of all existing issued shares. Further, for each scheme, there is a limit of 25% of the shares available to controlling shareholders and their associates and a limit of 10% for each individual within this group. Directors and employees of the issuer's parent company and subsidiaries are also subject to a limit of 20% of each scheme's shares. Finally, the discount for each scheme – which must be approved by shareholders – cannot exceed 20%.

In contrast, the Catalist rulebook does not stipulate such specific limits. Instead, Rule 844 states: “A limit on the size of each scheme, the maximum entitlement for each class or category of participant (where applicable), and the maximum entitlement for any one participant (where

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<sup>2</sup> On 13 March 2017, SGX announced a temporary relaxation of the 50% limit for a pro-rata issue of shares under the general mandate, aimed at helping companies to “raise funds expediently for expansion activities or working capital”. All companies are allowed to seek a general mandate for an issue of pro-rata renounceable rights shares of up to 100%. This can be done by seeking shareholder approval through a specific vote or an enhanced share issue mandate at the AGM. The rights shares must be issued and listed by 31 December 2018.

applicable) must be stated.” Consequently, Catalist issuers may reward their management and directors with larger amounts of share incentives.

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### **2.2.3 MAJOR TRANSACTIONS**

The classification of major transactions differs between the Mainboard and Catalist, with Catalist issuers being able to conduct larger transactions without seeking shareholder approval.

According to Rule 1014, major transactions for Mainboard-listed companies are those that exceed 20% of the various criteria under Rule 1006. In contrast, Catalist Rule 1014 classifies major transactions as acquisitions exceeding 75% of Rule 1006 criteria, or disposals exceeding 50%. Disclosure to shareholders, however, is still necessary under both set of rules.

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### **2.2.4 VERY SUBSTANTIAL ACQUISITIONS OR REVERSE TAKEOVERS**

For both Mainboard and Catalist issuers, Rule 1015 provides that very substantial acquisitions or reverse takeovers are transactions that exceed 100% of any of the Rule 1006 criteria. However, the key difference between the rules under the two boards is the acquiree’s profitability. According to Rule 1015(2), any business acquired by Mainboard issuers must be profitable, whereas there is no such requirement for Catalist issuers.

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### **2.2.5 SGX WATCH-LIST**

The SGX Watch-list was first introduced in 2008, with the objective of enhancing the quality of companies listed on the Mainboard. The Watch-list rules are covered in rules 1310 to 1316 of the Mainboard rulebook. Initially, companies were placed on the Watch-list based on Financial Entry Criteria of whether they recorded pre-tax losses for the three most recently completed consecutive financial years using the latest announced consolidated accounts and had an average market capitalisation of less than \$40 million over the last 120 trading days. In March 2015, the Watch-list rules were revised with the addition of the Minimum Trading Price (MTP) Criteria, which became effective in March 2016. Under the initial MTP criteria, companies were placed on the Watch-list if their Volume-Weighted Average Price (VWAP)<sup>3</sup> was less than \$0.20 over the last six months. The calculation of the average market capitalisation for the Financial Entry Criteria was revised to \$40 million over the last six months and “announced consolidated accounts” was

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<sup>3</sup> Under Practice Note 13.2, the VWAP is calculated using the following formula:

$$\frac{\text{Total value of securities traded}}{\text{Total volume traded}}$$

replaced with “audited consolidated accounts”. On 2 December 2016, the average market capitalisation criterion was added to the MTP Criteria after a consultation which was launched on 23 August 2016.

Reviews for each criterion are conducted every six months – on the first market day of June and December. Under Rule 1315, companies have 36 months to exit the Watch-list, failing which they will be delisted or suspended with a view to being delisted.

Under rule 1313, If an issuer is placed on the Watch-list, it must immediately announce the fact through SGXNet and “for the period in which it remains on the watch-list, provide the market with a quarterly update on its efforts and the progress made in meeting the exit criteria of the watch-list, including where applicable its financial situation, its future direction, or other material development that may have a significant impact on its financial position. If any material development occurs between the quarterly updates, it must be announced immediately.”

There is no Watch-list for the Catalist board.

In its Regulator’s Column published on 31 July 2015 - following the introduction of the MTP Criteria for the Watch-list in March 2015 - SGX said: “For companies facing longer-term share price weakness following a share consolidation, strategic actions may be required to improve its overall valuation, business fundamentals or underlying financial performance. These actions could include organic growth strategies, restructuring, mergers and acquisitions, reverse takeovers, **a transfer to Catalist** or a combination of any of these” (emphasis added).

However, concerns were raised in a letter to the media about the practice of allowing companies to transfer from the Mainboard to Catalist and turning Catalist into a “graveyard for dying companies”.<sup>4</sup> In response to SGX advising Mainboard companies to consider transferring to Catalist if they are unable to meet the MTP criteria, the letter cautioned: “It is likely that many companies which are unable to meet the MTP requirement suffer from poor business fundamentals that threaten their long-term viability. We may also have a situation of companies with recurring losses seeking to transfer to Catalist when they are on the verge of being placed on the Watchlist.”.

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<sup>4</sup> Mak, Y.T., “Don’t let Catalist become a graveyard for dying companies,” Business Times, 2 December, 2015.

In January 2016, another Regulator's Column published by SGX set out conditions for transfer from the Mainboard to Catalist, including for companies that are already on, or at risk of being placed on, the Watch-list based on the Financial Entry Criteria or MTP Criteria.<sup>5</sup> First, the company would need to meet the general requirements under Catalist Rule 410. These include the shareholding spread and distribution, the expertise of directors and management, as well as shareholder approval by a special resolution.

Catalist Rule 410(1) "requires, among others, disclosure in the shareholders' circular on the transfer to Catalist, a statement by the company's directors and sponsor that, in their reasonable opinion, the working capital available to the company is sufficient for present requirements and for at least 12 months after the transfer. In confirming this, the sponsor must undertake independent assessment of the funding needs of the company's operations and growth plans, and be satisfied that the transfer to Catalist would help address these needs."

Watch-list companies and those at risk of being placed on the Watch-list are subject to more stringent requirements. SGX also reserves the right to impose additional conditions.

For companies that are already on, or at risk of being placed on, the Watchlist under the Financial Entry criteria, they will not be allowed to transfer "unless these companies carry out a reverse takeover (RTO) or a very significant acquisition (VSA), or demonstrate improvement in their financials before they apply for a transfer to Catalist."

For such companies, the conditions for transfer depend on whether they have achieved profitability, whether their market capitalisation is at least \$40 million, and whether they undertake a RTO/VSA. SGX will seek the sponsor's assessment of the company in four areas – business viability, ability to continue as a going concern, working capital and whether profits are recurring. SGX's non-objection must be issued before a company can successfully transfer.<sup>6</sup>

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<sup>5</sup> SGX, "Regulator's Column: Transfers from Mainboard to Catalist - what to expect of companies and sponsors," 4 January, 2016.

<sup>6</sup> The discussion of criteria for transfer to Catalist in this section is based on information published by SGX.

The conditions for transfer for Mainboard companies that are already on, or at risk of being placed on, the Watch-list due to the MTP criteria are simpler. It said: “Companies placed on the Watch-list after 1 March 2016 due **only** to non-compliance with the MTP rule can choose to transfer to Catalist by appointing a sponsor and applying to SGX for the transfer. The sponsor should be satisfied with the company’s plans to improve its business fundamentals, and that the transfer to Catalist is necessary for the company to address its funding needs and execute its plans.”

SGX also set out what the sponsor needs to assess when evaluating a Mainboard company for transfer to Catalist.

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#### ***2.2.6 RATIONALE AND POSSIBLE CONSEQUENCES***

In principle, differences in continuing listing obligations for the two boards may make sense. Growth companies may have less cash and therefore need to rely more on shares for making acquisitions and for rewarding management. Growth companies may also need to be more nimble and flexible in exploiting opportunities. Further, since Catalist allows loss-making companies to list, and growth companies may require significant time to become profitable, imposing a Watch-list on such companies may also run counter to the objectives of Catalist.

However, more liberal rules also create a greater risk of abuse. What if the Catalist companies are not growth companies or are past their growth phase? Should the greater flexibility continue to apply for as long as they remain on Catalist? Would this encourage companies to remain on Catalist to exploit this flexibility to the detriment of shareholders? Would this encourage companies that are not growth companies to choose to list on Catalist; companies to transfer to or remain on Catalist in order to exploit the great flexibility in rules to the detriment of shareholders; or struggling companies to escape the Watch-list with little prospect for an turnaround so that management can continue to keep their jobs and pay themselves generously?

### 3. ANALYSIS OF COMPANIES – PRE-TRANSFER FROM MAINBOARD TO CATALIST

We conducted a study to assess the characteristics of companies that transferred from the Mainboard to Catalist since 2015, their likely motivation for the transfer, and whether their performance and share liquidity improved post-transfer.

#### 3.1 HOW DIFFERENT ARE MAINBOARD AND CATALIST ISSUERS?

We first compare the financial characteristics of the Mainboard and Catalist companies to determine if they are indeed different – and more specifically, whether Catalist companies exhibit characteristics that are commonly associated with growth companies. To do this, we use various measures relating to size, profitability, operating cash flows, price-to-earnings ratio and price-to-book ratio. We would expect Mainboard issuers to be generally larger, more profitable, have higher operating cash flows, and lower price-to-earnings and price-to-book ratios, compared to Catalist issuers.

We obtained data from Bloomberg Professional Services as at 15 October 2018. Table 2 presents the descriptive statistics separately for 507 Mainboard issuers<sup>7</sup> and 187 Catalist issuers.<sup>8</sup>

On average, Mainboard issuers are more than four times the size of Catalist issuers based on market capitalisation and more than five times based on revenue. The median market capitalisation of Mainboard issuers is about S\$118 million compared to about S\$29 million for Catalist issuers, while median revenue is about S\$153 million compared to S\$28 million. Mainboard issuers also have higher median net income, ROE, ROA and cash flow from operations compared to those on Catalist, while median P/E and P/B ratios are lower for Mainboard companies than Catalist companies. All the measures are significantly different at the five percent level (based on one-tailed significance tests), except for ROE which is marginally significant at the ten percent level and P/E, which is directionally consistent but not statistically significant. Overall, we can conclude that Mainboard companies are on average different from Catalist companies in terms of size, profitability, cash flows and growth.

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<sup>7</sup> Excluding index funds, bonds, REITs and exchange-traded funds

<sup>8</sup> Excluding the 23 companies that transferred from the Mainboard to Catalist

However, there are a number of Catalist companies that clearly resemble Mainboard companies more than Catalist companies, based on whether they are above the median of the Mainboard companies for market cap, revenue, net income, ROE and ROA and below the median for Mainboard companies for P/E and P/B. There are 17 Catalist companies that meet these criteria for at least five out of the seven measures, and of these, six meet these criteria for six out of the seven measures. These companies are clearly more similar to Mainboard companies than other Catalist companies.

**Table 2. Financial profiles of the SGX Mainboard and Catalist (Source: Bloomberg Professional Services)<sup>a</sup>**

<i>In millions of SGD for Market Cap, Revenue, Net Income and Cash Flow from Operations</i>	<b>Mainboard</b>						<b>Catalist<sup>b</sup></b>					
	<b>Mean</b>	<b>Median</b>	<b>SD</b>	<b>Min</b>	<b>Max</b>	<b>N</b>	<b>Mean</b>	<b>Median</b>	<b>SD</b>	<b>Min</b>	<b>Max</b>	<b>N</b>
<b>Market Cap</b>	1,593.73	118.46	6,621.4	1.12	62,364.18	421	57.34	29.08	85.09	0.44	801.71	172
<b>Revenue</b>	1,211.99	152.97	5,166.38	0	59,917.45	456	53.00	27.94	76.67	0	711.31	178
<b>Net Income</b>	97.08	5.95	606.81	-4,414.03	5,391.30	467	-0.38	-0.45	11.65	-64.56	51.78	183
<b>ROE</b>	-0.81	4.87	34.22	-214.00	167.89	432	-4.14	0.49	31.52	-159.34	141.66	168
<b>ROA</b>	-0.86	2.03	33.74	-168.60	509.95	462	-8.77	-1.47	54.60	-614.44	114.73	183
<b>Cash Flow from Operations</b>	85.11	5.25	896.91	-11,143.00	7,865.40	464	-0.1	-0.07	22.43	-268.76	49.5	183
<b>P/E</b>	16.48	11.39	16.70	0.29	145.46	291	20.38	12.56	25.82	0.00	140.79	72
<b>P/B</b>	1.11	0.72	1.25	0.05	8.91	397	1.66	0.79	3.07	0.01	32.16	156

<sup>a</sup> The number of observations is different for different measures due to data availability.

<sup>b</sup> The 23 transferring companies are excluded in calculating these descriptive statistics.



### 3.2 CHARACTERISTICS OF TRANSFERRING COMPANIES

Next, we examine the profiles, corporate governance quality and financial performance of Mainboard companies which transferred to Catalist since 2015, and compare them to other Mainboard and Catalist companies.<sup>9,10</sup>

Data on the profiles and financial performance were obtained from the SGX website and Bloomberg respectively, except the Singapore Governance and Transparency Index (SGTI) scores and ranks that were obtained from the website of the Centre for Governance, Institutions and Organisations (CGIO) of the NUS Business School.

We first identify the companies that have transferred from the Mainboard to Catalist between 2015 and 2018. Table 3(A) shows the 23 companies that have successfully transferred, with Table 3(B) listing an additional five companies that were not successful in their application for a transfer.

**Table 3(A). List of Mainboard companies that transferred to Catalist between 2015 and 2018**

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Allied Technologies Limited
Amplefield Limited
Annaik Limited
Avic International Maritime Holdings Limited
Changjiang Fertilizer Holdings Limited ( <i>Now known as Olive Tree Estates Limited</i> )
China Bearing (Singapore) Limited ( <i>Now known as Silkroad Nickel Ltd.</i> )
China Kunda Technology Holdings Limited
Ecowise Holdings Limited
Hatten Land Limited

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<sup>9</sup> The single company that transferred from Mainboard to Catalist in 2014 was Pteris Global, which delisted in 2016 following a buyout that resulted in Sharp Vision Holdings owning 98.98% of Pteris' shares. This meant that Pteris could no longer meet the Catalist requirement of 10% public float. We excluded Pteris from our study of transferring companies.

<sup>10</sup> There were some companies that did a "yo-yo" between the two boards. For example, Ecowise, Pteris Global and Sinjia Land moved up to the Mainboard and then moved back down to Catalist. Under the old Sesdaq, Hiap Hoe and Interra Resources moved down from Mainboard to Sesdaq and then back up to the Mainboard.

Jiutian Chemical Group Limited  
 Joyas International Hldgs Limited  
 Ley Choon Group Holdings Limited  
 LH Group Limited (*Now known as Pacific Star Development Limited*)  
 Lifebrandz Limited  
 Liongold Corp Limited  
 Matex International Limited  
 Metech International Limited  
 Miyoshi Limited  
 Nippecraft Limited  
 Ocean Sky International Limited  
 OLS Enterprise Limited (*Now Known As Pine Capital Group Limited*)  
 Sinjia Land Limited  
 Transcorp Holdings Limited

**Table 3(B). List of Mainboard companies that were not successful in transferring to Catalist between 2015 and 2018**

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China Environment Limited  
 China Sports International Limited  
 Innopac Holdings Limited  
 MMP Resources Limited  
 Oceanus Group Limited

Seventeen out of the 23 companies (74%) are local companies, and seven out of 23 have a Big 4 accounting firm as external auditor, with six of these having Ernst & Young as the external auditor. The companies that have transferred to Catalist come from a range of industries and are relatively well-established, being listed on the Mainboard for between four and 23 years with an average of 13 years on the Mainboard before the transfer.

In additional analysis, we found that 20 out of the 23 companies that transferred had unmodified audit opinions in the year of transfer. Of these 20, 15 also had unmodified opinions for each of the prior two years, four had an emphasis of matter relating to going concern for one of the prior two years, and one had a qualified opinion based on insufficient evidence for one of the prior two years.

Eighteen of the 20 companies continued to receive unmodified opinions after the transfer until the cut-off date for this study, while the other two received an emphasis of matter or qualified opinion in one of the years following the transfer.

For the three companies with modified opinions in the year of transfer, one had a disclaimer relating to going concern (plus other issues) in the year of transfer and each of the prior two years, but received an unmodified opinion in the year following the transfer. Another had an emphasis of matter relating to going concern for all three years, which became a material uncertainty relating to going concern for each of the two years after its transfer (up to the cut-off date for this study). The third had a disclaimer relating to going concern (plus other issues) in the year of transfer and the year before transfer. Following the transfer, it continued to receive disclaimer or qualified opinion for the three years after (up to the cut-off date for this study).

Companies that succeeded in their bids to transfer were not often on the Watch-list yet. Only eight or 35% of these companies were already on the Watch-list at the time of transfer, compared to four out of five for the unsuccessful companies. This is consistent with SGX being more stringent on the transfers of companies on the Watch-list as it said it would be. However, the reasons for the unsuccessful transfer attempts are uncertain. Of these five companies that did not go through with the transfer, one company announced that the board decided not to proceed with the proposed application for the transfer but did not say why, while another did not obtain approval from SGX due to doubts over its ability to operate as a going concern. The other three companies did not make any further announcement after announcing their intention to apply for a transfer.

Of the 15 companies that were not already on the Watch-list at the time of transfer, 13 had already made at least two successive years of losses or their share price was less than \$0.20 for at least six months before the transfer - and their average market capitalisation for a six-month period had fallen below \$40 million. One of the remaining two companies had made three successive years of losses and had an average share price below \$0.20 but its average market capitalisation was S\$43.71 million – i.e., above the S\$40 million minimum average market capitalisation threshold. The other had an average share price below S\$0.20 with an average market capitalisation of S\$58.48 million, but at the time of its transfer, the MTP criteria had not yet been modified to include the average market capitalisation criterion.

Overall, we can reasonably conclude that all 23 companies that transferred from the Mainboard were either already on the Watch-list, or were at risk of being placed on it.

### 3.3 CORPORATE GOVERNANCE OF TRANSFERRING COMPANIES

This section compares the corporate governance of transferring companies against the other companies on the Mainboard and Catalist, using the 2018 SGTI scores and ranks. Table 4 shows the mean and median SGTI rank and score for the transferring companies compared to the other Mainboard and Catalist companies.

**Table 4. SGTI ranks and scores for transferring, Mainboard and Catalist companies<sup>a</sup>**

	Transferring Companies			Mainboard			Catalist <sup>b</sup>		
	Mean	Median	N	Mean	Median	N	Mean	Median	N
<b>SGTI Rank</b>	334.05	396.00	22	276.43	267.00	406	322.05	320.00	155
<b>SGTI Score</b>	52.50	48.00		57.94	57.00		52.39	53.00	

<sup>a</sup> SGTI ranks and scores were not available for some companies.

<sup>b</sup> The transferring companies are excluded when calculating SGTI ranks and scores for the Catalist companies.

The median SGTI ranks and scores shown in Table 4 reveal that transferring companies, on average, have poorer corporate governance compared to other companies listed on the Mainboard and Catalist. Using mean ranks and scores instead of median, the transferring companies have poorer corporate governance compared to the Mainboard companies and similar corporate governance than other Catalist companies – however, the latter is due to two transferring companies being “outliers”, having SGTI ranks within the top 90 companies.

Therefore, on average, the transferring companies have poorer corporate governance than their existing Mainboard peers, and also poorer corporate governance than their new peers. This again suggests that companies transferring to Catalist may negatively affect the overall quality of Catalist.

### 3.4 FINANCIAL CHARACTERISTICS OF TRANSFERRING COMPANIES

We further examine the financial characteristics of transferring companies in terms of their market cap, revenue, net income, ROE, ROA, cash flows from operations, price-to-earnings ratio and price-to-book ratio. Table 5 compares these characteristics against those of other Mainboard and Catalist issuers.

A comparison of the median market capitalisation reveals that the size of transferring companies (S\$19.50 million) more closely resembles that of the Catalist-listed companies (S\$29.08 million) than Mainboard-listed ones (S\$118.46 million). Transferring companies also have lower net income than Mainboard companies, with a median net loss of S\$1.22 million, compared to median net income of S\$5.95 million for the latter. This is unsurprising since they were already on the Watch-list requirements or likely heading there while on the Mainboard. However, transferring companies also have greater losses than existing Catalist issuers, which only incurred a median net loss of S\$0.45 million. Transferring companies have lower median ROE and ROA than other Mainboard companies, consistent with the lower profitability, but their median ROE and ROA are still higher than other Catalist companies.

An examination of the valuation ratios reveals additional differences. Transferring companies have lower P/E and P/B ratios than both other Mainboard and other Catalist companies. The median P/E for the transferring companies is 7.41 and the median P/B is 0.6, compared to 11.39 and 0.72 respectively for other Mainboard companies, and 12.59 and 0.79 for other Catalist companies. These values suggest that transferring companies have less growth potential than other Mainboard and Catalist companies.<sup>11</sup>

Overall, the findings support concerns that allowing companies to transfer from the Mainboard to Catalist, while improving the quality of the Mainboard, may harm the quality of Catalist. Transferring companies tend to be on the Watch-list or heading towards it, and have poorer corporate governance, lower profitability and lower growth potential than other Mainboard and Catalist companies.

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<sup>11</sup> Tests for statistical significance were not conducted for the differences between transferring companies and the other Mainboard and Catalist issuers, because there were only 23 transferring companies.

**Table 5. Comparison of transferring companies with other Mainboard and Catalist companies**

<i>In millions of SGD for Market Cap, Revenue, Net Income and Cash Flow from Operations</i>	<b>Transferring Companies</b>			<b>Mainboard</b>			<b>Catalist<sup>a</sup></b>		
	<b>Mean</b>	<b>Median</b>	<b>SD</b>	<b>Mean</b>	<b>Median</b>	<b>SD</b>	<b>Mean</b>	<b>Median</b>	<b>SD</b>
<b>Market Cap</b>	30.14	19.5	40.96	1,593.73	118.46	6,621.40	57.34	29.08	85.09
<b>Revenue</b>	67.49	53.61	67.38	1,211.99	152.97	5,166.38	53.00	27.94	76.67
<b>Net Income</b>	-0.4	-1.22	5.66	97.08	5.95	606.81	-0.38	-0.45	11.65
<b>ROE</b>	-14.20	-0.78	36.43	-0.81	4.87	34.22	-4.14	0.49	31.52
<b>ROA</b>	-10.35	-0.81	21.60	-0.86	2.03	33.74	-8.77	-1.47	54.60
<b>Cash Flow From Operations</b>	-11.27	-1.29	49.02	85.11	5.25	896.91	-0.1	-0.07	22.43
<b>P/E</b>	9.76	7.41	6.83	16.48	11.39	16.7	20.38	12.56	25.82
<b>P/B</b>	1.30	0.60	2.64	1.11	0.72	1.25	1.66	0.79	3.07

<sup>a</sup> The 23 transferring companies are excluded in calculating the descriptive statistics for the Catalist companies.

### 3.5 COMPARISON OF PRE-TRANSFER CHARACTERISTICS OF COMPANIES THAT TRANSFERRED IN 2015 AND AFTER

As mentioned earlier, in January 2016, SGX clarified and tightened the criteria for transfers from the Mainboard to Catalist, especially for companies that were on the Watch-list or at risk of being placed on it. The following companies transferred in 2015, i.e., before SGX tightened the criteria: Ecowise Holdings, Joyas International, Lifebrandz, Liongold Corp, Metech International, OLS Enterprise (now Pine Capital Group), Sinjia Land and Transcorp Holdings.

The following companies transferred during or after 2016: Allied Technologies, Amplefield, Annaik, Avic International Maritime, Changjiang Fertiliser Holdings (now Olive Tree Estates), China Bearing (now Silkroad Nickel), China Kunda Technology, Hatten Land, Juitian Chemical, Ley Choon Group Holdings, LH Group (now Pacific Star Development), Matex International, Miyoshi, Nippecraft and Ocean Sky.

Of the five companies that were unsuccessful in applying for a transfer, one applied in September 2015, one in November 2015, two in December 2015, and one in April 2016.

We compare the corporate governance and financial characteristics of those companies that transferred before 2016 and those that did so during or after 2016. This is to assess whether the quality of companies that transferred after SGX tightened the criteria for transfer is better than those that transferred earlier.

For financial characteristics, we found that the median net loss for the pre-2016 group is higher (negative S\$2.817 million) than for those that transferred during or after 2016 (negative S\$1.026 million). However, the median cumulative returns and share liquidity were worse for the latter group. Therefore, while it does appear that the tightening of criteria by SGX in January 2016 for companies that are on, or heading to, the Watch-list especially for successive losses has improved the quality of company from the “net loss” perspective, the evidence is at best mixed that the companies that transferred later were better quality companies from the financial standpoint.

Next, we compared the corporate governance of companies that transferred before 2016 and the other companies that transferred later. We obtained the SGTI scores (and prior to SGTI, the GTI scores) for each company for all the years. We computed the median percentile ranking for each company for each year based on the number of companies that were included in the SGTI for that year. The reason we use median percentile ranking is to take into account the changes in number

of companies that were included for the SGTI each year and the overall increase in SGTI scores especially over the recent years. We then averaged the median percentile ranking for each company over all the years before they were transferred (the year of transfer was not included for this analysis). Using the average for each company in the pre-2016 group, we computed the median percentile ranking. We repeated the same steps for the companies that transferred after 2015.

We found that the median percentile SGTI ranking for those that transferred before 2016 was 47%, while those that transferred during or after 2016 had a median percentile SGTI ranking of 67%. In other words, the companies that transferred later had poorer corporate governance before the transfer.

Given the small number of companies – eight companies that transferred before 2016 and the other 15 that transferred during or after 2016 - the comparison should be interpreted with caution. Nevertheless, there is no clear evidence that companies that transferred later were better from the financial and corporate governance perspectives.

In a later part of the report, we look at the two groups after they have transferred.



## 4. ANALYSIS OF COMPANIES – POST-TRANSFER FROM MAINBOARD TO CATALIST

We next examine whether the transferring companies utilise the more liberal rules on Catalist, and their financial characteristics and corporate governance after their transfer.

### 4.1 POST-TRANSFER ACTIONS OF COMPANIES

Earlier in Section 2.2, we identified five key areas where the rules are less stringent on Catalist compared to the Mainboard. In this section, we review the annual reports and announcements of transferring companies to determine if they benefitted from these less stringent rules after their transfer.

Table 6 shows each of the five Mainboard rules and the number of companies that benefitted from the inapplicability of each of these rules after their transfer. For Mainboard rule 806, the two companies each benefitted once from not having to apply the rule, after their transfer and until the cut-off date for this study. For Mainboard rule 845, the one company made three share grants after its transfer that would not have been possible if it had stayed on the Mainboard. In the case of rules 1006/1014, five companies undertook one transaction that would have required shareholder approval had they stayed on the Mainboard, one undertook two such transactions, and the other two undertook four such transactions.

**Table 6. Mainboard rules that transferring companies avoided after their transfer**

S/N	Mainboard Rule No.	Rule	Number of Companies
1	806	Maximum pro-rata issue of 50% of shares under the annual general mandate	2
2	845	Limits on share and share options	1
3	1006, 1014	Shareholder approval required for major transactions exceeding 20 percent of various criteria	8
4	1015	Substantial acquisitions/reverse takeovers only of profitable business	0
5	1310 – 1316	SGX Watch-list, either through the Financial Entry Criteria or the Minimum Trading Price (MTP) Criteria	17

Before their transfer, eight of the 23 transferring companies were on the Watch-list. Earlier, we noted that the other 15 companies appeared to be at risk of being placed on the Watch-list based on the Financial Entry Criteria and/or MTP Criteria. By the time of our study, we found that 9 of these 15 companies would likely have been placed on the Watch-list had they remained on the Mainboard. This was the clearest benefit to the companies that transferred to the Catalist. Since the transferring companies are generally struggling companies, having these companies on Catalist would go against the original intent of Catalist being a platform for growth companies – although SGX itself seems to have subtly changed the objective of Catalist to one that is both for growth companies and for companies to move to if they need to improve their financials. This may affect valuations on Catalist and adversely affect the attractiveness of Catalist for true growth companies.

After their transfer, eight companies have so far also benefitted from not having to seek shareholder approval for major transactions that exceeded the thresholds in the Mainboard rules following their transfer, two companies have made pro-rata issues of shares that exceeded the 50% limit under the Mainboard rules, while one has exceeded the limits for share/share option schemes under the Mainboard rules. Other companies that have transferred may also utilise the more liberal Catalist rules in future.

The effect of these more liberal rules is shareholders having less say over major corporate transactions and reduced investor protection. While there may be some merit in allowing more liberal rules for growth companies, the more liberal rules are now available to struggling companies often with relatively poor corporate governance. This may further undermine investor confidence in the Catalist board.

## 4.2 FINANCIAL AND TRADING PERFORMANCE OF TRANSFERRING COMPANIES

In this section, we compare the pre- and post-transfer financial and trading performance of transferring companies, to determine if a transfer to Catalist is followed by an improvement or deterioration in financial and trading performance. We look at three measures – net income, cumulative returns, and share liquidity.

Data were obtained from Bloomberg Professional Services, with the period of the data starting from each company's initial listing on the Mainboard to 3 October, 2018, the cut-off date for the data collection.

The following methodology was then used to analyse the data. First, the data of each company was sorted according to whether the company was listed on the Mainboard or Catalist on that date. Next, each company's average performance on the Mainboard and Catalist was derived. Finally, the difference between each company's performance on each listing board was obtained. Adjusted share prices were used, taking into account events such as dividends and rights issuance.

Twelve of the 23 transferring companies have seen their average net income worsen, with 14 companies making an average net loss on Catalist. Also, 15 companies experienced a fall in their share price, following their transfer to Catalist. Further, the share liquidity of 16 companies also worsened. Six companies saw all three measures worsen, while only two saw all three measures improving. Therefore, in most cases, transferring to Catalist did not help the companies.

This raises the question as to whether allowing companies to transfer is merely delaying the inevitable for many of these companies.

## **TRANSCORP HOLDINGS: WHO BENEFITTED?**

Transcorp Holdings transferred from the Mainboard to Catalist on 20 October 2015. While it was not on the Watch-list at the time of transfer, its average share price over the previous six months had fallen to below \$0.20, which meant it met the MTP Criteria for the Watch-list that had been introduced in March 2015 (but effective March 2016). In February 2016, its then managing director, 53-year old Tan Cheng Chuan, who was a controlling shareholder until March 2016, resigned from the company and the board, citing “retirement”. On 9 May 2016, Transcorp completed the disposal of the entire issued and paid-up capital of several subsidiaries to Mr Tan following the announcement of the proposed disposal on 29 April 2016. The relative figures for the disposal based on net asset value, profitability and consideration were all above 20%. If Transcorp had remained on the Mainboard, shareholder approval would have been required. However, since it was now on Catalist, the disposal would only have required shareholder approval if the relative figures were at least 50%. Since Mr Tan was no longer considered an “interested person”, the transaction was also not an interested person transaction.

In March 2018, Transcorp announced that it was acquiring a 10 percent stake in Motor Megamall Pte Ltd, which was described as a fintech start-up company whose main business appears to be providing an online platform for motor vehicle purchasers to obtain financing. The consideration of S\$1.5 million, satisfied through the issue of new ordinary shares, was 28.19% of the market capitalisation of Transcorp. Again, no shareholder approval was required because the threshold for shareholder approval of acquisitions for Catalist companies is 75%.

Following its transfer, Transcorp’s average net income worsened and turned negative, its cumulative share return was highly negative and its liquidity deteriorated. At the time of its transfer, Transcorp’s share price was S\$0.15. Today, it is S\$0.015. To top it off, it has recently seen a spate of resignations involving independent directors and key officers, including an independent chairman who lasted four months and a chief financial officer who lasted four days.

#### 4.3 COMPARISON OF POST-TRANSFER CHARACTERISTICS OF COMPANIES THAT TRANSFERRED IN 2015 AND AFTER

In section 3.5, we compared the pre-transfer characteristics of those companies that transferred in 2015 and those that did so during or after 2016. Here, we compare the pre- and post-transfer characteristics of the two group of companies. We attempt to determine whether those companies that transferred after SGX tightened the criteria did better after their transfer, compared to those that transferred earlier.

For the pre-2016 group, net income, share price, share liquidity and corporate governance all deteriorated for the majority of the companies. For those that transferred during or after 2016, the results are more mixed. While share liquidity also worsened for the majority of companies in this group, slightly more companies saw their net income and share price improve compared to those that saw these measures deteriorate. Interestingly, the average corporate governance percentile ranking for about 70% of the companies in this group improved.

However, we again caution about the interpretation of these findings due to the small number of companies in the two groups.

##### **NIPPECRAFT: LIMPING OVER THE TRANSFER LINE**

Nippecraft was on the Watch-list – since 5 March 2014 due to the Financial Entry Criteria, and since 3 March 2016 due to the MTP Criteria.

Previously, issuers had 24 months to exit the Watch-list, or face delisting. This was changed to 36 months in March 2016. Thus, on 4 April 2016, Nippecraft received an extension of time until 1 March 2017 to exit the Watch-list.

Nippecraft was still unable to exit the Watch-list in 2017. On 27 February 2017, it applied for a second extension of time to do so, but this was not granted and it faced delisting on 11 May 2017. However, on 1 June 2017, SGX granted the company an extension to 1 March 2018.

In February 2018, Nippecraft announced that it made a net profit before tax of US\$97,000 but did not meet the average market capitalisation requirement to exit the Watch-list and therefore proposed to transfer to Catalist. It applied for a further six-month extension to exit the Watch-list pending the proposed transfer to Catalist. In May 2018, it was granted a final extension to exit

the Watch-list by 1 July 2018 and approval-in-principle from SGX for the transfer. On 8 June 2018, it announced that its transfer from Catalist would be effective from 13 June 2018 and that it would be removed from the Watch-lists based on Financial Entry Criteria and MTP Criteria.

Nippecraft's business of producing diaries, notebooks, organisers and stationery has been heavily disrupted. Is giving it so many opportunities to exit the Watch-list and then eventually allowing it to transfer to Catalist good for all shareholders and for the credibility of Catalist?

## 5. CONCLUSIONS AND RECOMMENDATIONS

While the Catalist board was intended for growth companies, struggling Mainboard companies can transfer to it in order to avoid a delisting due to poor profitability or a low share price. According to SGX, one of the options for companies facing longer-term share price weakness following a share consolidation is a transfer to Catalist.

Although there are certain benefits to listing on the Mainboard compared to Catalist, there are also significant benefits to a Catalist listing compared to a Mainboard listing. For example, in addition to the absence of a Watch-list, the continuing listing rules are less stringent in areas such as number of Singapore-resident independent directors for foreign issuers, general share issue mandate, share and share option schemes, major transactions, and very substantial transactions or reverse takeovers. Catalist companies therefore have more flexibility, are able to execute transactions more speedily, and have lower compliance costs.

Companies may therefore choose to list or remain on the Mainboard, while companies listed on Mainboard may choose to transfer to Catalist to avoid the Watch-list or to exploit its more liberal rules.

Since 2014, only six Catalist companies have transferred to the Mainboard, while 24 Mainboard companies have moved to Catalist over the same period. About 11% of all Catalist listings today are companies that have moved down from the Mainboard. The number of Catalist IPOs have far outnumbered Mainboard IPOs over the last few years, and the percentage of issuers that are listed on Catalist since 2014 has increased from 20 percent to nearly 30 percent.

Our study shows that all 23 companies that have transferred from the Mainboard to Catalist since 2015 were either already on the Watch-list for successive years of losses or low share price, or were at risk of being placed on the Watch-list. On average, transferring companies also have poorer corporate governance, are less profitable than other Mainboard companies, and have lower growth potential than other Mainboard and Catalist companies.

Since their transfer to Catalist, 10 companies have so far used the more liberal Catalist rules to undertake transactions, with some companies doing so for several rules and/or on multiple occasions.

Our study also found that the profitability, share price and share liquidity of companies that transferred more often worsen than improve. Therefore, transferring to Catalist did not generally

help the companies, may not benefit shareholders, and may harm the overall quality of the Catalist board.

In January 2016, following concerns raised in the media about poorly-performing Mainboard companies transferring to Catalist, SGX clarified and tightened the criteria for such transfers, especially for loss-making companies. We did find some evidence that companies that transferred after SGX tightened the criteria were on average making lower losses, although it was not clear that their overall quality was better because their share price performance, share liquidity and corporate governance were on average actually worse than those that transferred earlier. However, while more companies that transferred earlier saw their net income, returns, share liquidity and corporate governance worsen, more companies that transferred later saw these measures improve, except for share liquidity which also tend to worsen. We caution that these findings about companies that transferred before 2016 and those that did so during or after 2016 may not be conclusive given the small number of companies in each group.

When we examine how the stock exchanges in Hong Kong and Malaysia approach the regulation of their Mainboard and second board – GEM in the case of Hong Kong and ACE Market in the case of Malaysia – we found that while admission requirements are understandably less stringent for the second board, continuing listing requirements tend to be equally stringent or even more so.<sup>12</sup> For example, GEM companies in Hong Kong must produce quarterly reports, while those on

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<sup>12</sup> The Hong Kong Exchange launched a major review of GEM in 2017 and released revised rules for both the Mainboard and GEM in December 2017. To reflect the new role of GEM as a market for small and mid-sized companies, the previous name of “Growth Enterprise Market” for the second board was changed to “GEM”. Key listing rules changes include:

- the removal of the streamlined process for GEM transfers to the Main Board;
- the introduction of a mandatory sponsor requirement for transfer of listing from GEM to the Main Board, and a sponsor must be appointed at least two months before the submission of a listing application;
- an increase in the minimum expected market capitalisation of GEM applicants at the time of listing from \$100 million to \$150 million and a corresponding increase in the minimum public float value of GEM companies at the time of listing from \$30 million to \$45 million;
- an increase in the minimum expected market capitalisation of Main Board applicants at the time of listing from \$200 million to \$500 million and a corresponding increase in the minimum public float value of Main Board companies at the time of listing from \$50 million to \$125 million;
- an increase in the minimum cash flow requirement for GEM applicants from \$20 million to \$30 million;
- the introduction of a mandatory public offering requirement of at least 10 per cent of the total offer size for all GEM IPOs; and



the Main Board report on a half-yearly basis. Limits for the general share issue mandate and thresholds for transactions requiring disclosure/shareholder approval are the same for the two boards. For Malaysia, the Securities Commission's approval is required for acquisition of a new core business or RTO for Mainboard companies, while only Bursa Malaysia's approval is required for ACE Market companies. This reflects differences in regulatory framework for the two boards with the Securities Commission being more involved for the Main Market. However, certain areas such as "watch-list" (called Guidance Note 3 or GN3 companies), adviser and sponsor requirements appear to be stricter for the ACE Market. Further, limits for the general share issue mandate and thresholds for transactions requiring disclosure/shareholder approval are the same for the two boards.

We also did not find provisions for companies to transfer from the Mainboard to the second board in Hong Kong and Malaysia, and understand that they are rare, if permitted at all.

We believe that SGX should re-consider whether Mainboard companies should be allowed to transfer to Catalist at all. Mainboard companies that are on the Watch-list have 36 months to exit it. If they are unable to do so within that time frame, SGX can provide an extension. Allowing companies to transfer to Catalist when they may struggle to exit the Watch-list under these conditions will harm the reputation of Catalist and its attractiveness for true growth companies. Further, if transferring companies tend to have poorer corporate governance, giving them access to more liberal rules on Catalist may be harmful to shareholders. After transfer, directors and management may also feel less pressure to improve the fortunes of the company since there is no more threat of a delisting due to failure to exit the Watch-list, no more deadlines, and no more requirement to provide quarterly updates.

Based on the findings in our study, the following are our recommendations:

**Recommendation 1:** SGX should consider disallowing companies from transferring from the Mainboard to Catalist. If allowed, transfers should only be on an exceptional basis after a thorough review by SGX.

**Recommendation 2:** Companies that are allowed to transfer to Catalist should be closely-monitored after their transfer. SGX should continue to maintain direct oversight of these

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- an extension of the post-IPO lock-up requirement on controlling shareholders from one year to two years for GEM.

companies for some time after their transfer, instead of relying on continuing sponsors. Areas of scrutiny should include transferring companies' financial performance after their transfer, corporate governance, and the utilisation of more flexible Catalist rules.

**Recommendation 3:** Transferring companies should be required to continue to comply with applicable Mainboard rules for at least a reasonable specified period, with exemptions granted only on an exceptional basis.

**Recommendation 4:** SGX should review whether differences between the Mainboard and Catalist continuing listing obligations are justified, bearing in mind the need to balance greater flexibility for growth companies and investor protection.

SGX relies significantly on full sponsors and continuing sponsors under the sponsor-based regime of Catalist. While there are strict rules in place, there is some anecdotal evidence raising questions about the independence and effectiveness of some sponsors. There is also little evidence that sponsors are held accountable for the quality of listings they bring to the market or for their ongoing supervision of these listings. We hope to publish a further report later this year on the sponsors and issues relating to them.

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