

Corporate Watch

December 2003 Issue

Amendments to SGX Listing Manual effective 2004

— *How do they affect you?*

The Singapore Exchange Ltd (SGX) announced on 1 December 2003 certain amendments to its listing rules that are effective from 2 January 2004. These amendments followed a public consultation in July 2003 proposing amendments to support the recommendations of the Company Legislation and Regulatory Framework Committee and other matters in the areas of initial public offerings, reverse takeovers, general mandate for interested persons transactions and format of quarterly reporting.

This article examines the impact of some of the key amendments. It also highlights some significant differences between the July 2003 consultation paper and the final amendments issued in December 2003.

Positive operating cash flows required for IPO applicants

Under Rule 210(4)(a), an applicant seeking listing on the SGX is currently required to be in a healthy financial position and specifically, must not have any shortfall in its working capital. The requirement for having positive working capital has been amended. The applicant will be required to have net positive cash flows from its operating activities at the time of application of the listing.

The applicant need not have net positive cash flows from operating, investing and financing activities.

Limits on allocation of shares relaxed

Presently, where there is a public demand on placement of securities, the issue manager, lead broker and any distributor must not retain more than 5% of the placement shares it has agreed to procure subscription for. This restriction has been lifted.

Market capitalisation criterion for reverse takeover of Mainboard issuer removed

Currently, an enlarged group resulting from a reverse takeover needs to comply with the one of the following for a Mainboard listing :

- cumulative consolidated pre-tax profit of at least \$7.5 million for the last 3 years, and a minimum pre-tax profit of \$1 million for each of those 3 years
- cumulated consolidated pre-tax profit of at least \$10 million for the last 1 or 2 years
- market capitalisation of at least \$80 million calculated based on the issue price and post-invitation issued share capital

The last criterion will be removed. An enlarged group resulting from a reverse takeover may be admitted to SGX Mainboard when it able to meet one of the two profit criteria.

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Requirement for profit track record for reverse takeover of Sesdaq issuer removed

An enlarged group resulting from a reverse takeover of a SGX Sesdaq issuer is currently required to have minimum pre-tax profits in the last two years. In contrast, an applicant seeking an initial listing on SGX Sesdaq does not need to have such profit track records. To align the two, SGX has removed the requirement for profit track records in a reverse takeover of a Sesdaq issuer.

Invitation shares on reverse takeover defined

In the case of a reverse takeover, invitation shares used for determining the minimum public float to be held by

small investors, are not clearly defined. The rules are now amended to include a definition on invitation shares for a reverse takeover.

Of the 4 interpretations proposed in the July 2003 consultation paper, the final definition relates the minimum prescribed public float to the issued share capital of the enlarged group, being 25% for Mainboard issuers and 15% for Sesdaq issuers. In other words, an issuer will be first required to have a public float of at least 25% or 15% of its enlarged share capital. Second, the issuer will need to ensure that at least 40% or 20% of this minimum public float are held by small investors.

Shareholders required to abstain from voting at general meeting to be put on notice

A new rule (Rule 1206(5)) will be added to require a voting exclusion statement to be included in a shareholder circular if a shareholder is required by the listing rule to abstain from voting on a proposal at a general meeting. These situations include interested person transactions and grant of share options.

Another change proposed in the July 2002 consultation paper that the SGX should have the power to disregard the vote of a shareholder if it deemed appropriate, is now dropped.

Presentation of quarterly financial information to be in free form

Companies with market capitalisation of \$75m as at 31 March 2003 are currently required to present their quarterly balance sheets, profit and loss accounts, consolidated cash flow statements and changes in equity in the same format as that presented in their most recently audited annual financial statements. This will be relaxed to allow companies to present these quarterly financial information in any format, provided that the same format is used consistently for each quarter. This relaxation will not be applicable for the full year financial announcement nor for companies that make announcements on a half-yearly basis.

Although this change is geared at reducing compliance cost, it may result in an array of dissimilar presentation formats which may make comparison among companies a significant challenge. Analysts may have to rely on market demands or the initiative of companies to derive consistent format of presentation of the financial information.

The new Rule 705(3) also clarifies that companies that are listed after 31 March 2003 are not required to make quarterly financial announcement if their market capitalisation based on IPO issue price, is below \$75 million.

Announcement of qualifications or emphasis of matter in audit reports of subsidiaries or associated companies

Rule 704(5) is amended to require an issuer to make an announcement if there is any qualification or emphasis of matter by the auditors on the financial statements of the issuer or in the case of its subsidiaries or associated companies, if the qualification or emphasis of matter has a material impact on the issuer's financial statements or on the group's financial position. Currently, although it requires announcement by the issuer without regard to any materiality threshold, the scope was restricted to subsidiaries.

IFA opinion for renewal of general mandate for interested person transactions not required

An issuer may seek a general mandate from shareholders for recurring transactions of a revenue or trading nature or those necessary for its day-to-day operations. This includes recurring interested person transactions. An issuer is currently required to appoint an independent financial adviser (IFA) on an annual basis for an opinion to advise its shareholders on whether:

- the methods or procedures in determining transaction prices are sufficient to ensure that the transactions will be carried out on normal commercial terms; and
- the transactions will not be prejudicial to the interests of the issuer and its minority shareholders.

The listing manual is amended for the renewal of such general mandate such that the audit committee will be required to make the opinions listed above in-lieu of the IFA.

Trustee for debt securities need to be appointed

Rule 308 is amended to require the issuer to appoint a suitable trustee (ie one that is a trustee corporation under the Securities and Futures Act (SFA)), to represent the holders of its debt securities listed on the SGX, unless the issuer is a prescribed corporation under

the SFA or the debt securities are offered to institutional or sophisticated investors and is traded in minimum board lot size of \$200,000. The directors of the issuer will be required to confirm to the SGX that a suitable trustee has been appointed prior to the issue of the debt securities.

Additional disclosure requirements for debt securities

Rule 747 is amended to require the announcement of any amendments to the Trust Deed and any appointment of a replacement trustee.

Holders of more than 10% debt securities can call for meeting

Rule 309 is amended to require a trust deed to include provisions to enable debt securities holders to request for a meeting of the holders if holders of more than 10% of the nominal amount of the outstanding debt securities give this request in writing. According to the SGX, a similar rule exists in the United Kingdom and Hong Kong.

Shorter black-out periods for dealing in securities by issuer and its officers

Under the Best Practice Guide — Dealing in Securities, it is currently recommended that a listed issuer and its officer should not deal in the listed issuer's securities during the period commencing one month before the announcement of the company's financial statements for each of the first three quarters of its financial year, half year or financial year, and ending on the date of the announcement.

The black-out periods are now recommended to be shortened to two weeks for the periods where quarterly announcements are made. The black-out periods for half-year and full year announcements remain at one month.

Other changes

Some changes are also made as a result of the changes in legislation. For example, declaration by directors, executive officers or controlling shareholders should now be made in accordance with the Securities and Futures (Offer of Investments) (Shares and Debentures) Regulations 2002 instead of the rules in Appendix 2.4 to the Listing Manual.

For a complete list of the amendments, please visit the SGX website.

Audit Committees: Good Practices for Meeting Market Expectations



The 2nd edition of this publication reflects the evolving role of the audit committees and latest good practices, for example, the need for appropriate financial expertise, greater emphasis on training, and review of performance. It also includes a summary of the audit committee requirements in 41 major countries and the latest influential pronouncements on audit committees from UK and USA. A summary of the areas covered are as follows :

Why Audit Committees matter?

The audit committee is an essential part of the corporate reporting process. Its primary responsibility is to oversee on behalf of the board the integrity of the financial reporting controls and procedures implemented by management, to protect the interests of shareholders and other stakeholders. New regulatory pronouncements and requirements in many countries have served to re-emphasise the importance of objective oversight of financial reporting.

Organisation of Audit Committees

The audit committee should be well prepared to undertake its duties. A clear, well-written charter helps the committee and others to understand its role and responsibilities. All members of the committee should have appropriate qualities and skills, if they are to add value. Ideally, all should be seen to be independent of management. They should also have appropriate financial

expertise. Meetings should be held at relevant times throughout the year, supported by good agenda papers. New members should receive induction training and background information on the business.

Oversight responsibility for financial reporting

The committee's key task is to ensure the integrity of published financial information. Thus, it needs to understand the whole financial reporting process. This starts with the procedures for managing financial risks and the internal financial controls implemented by management. It should review each set of draft financial statements prior to publication and discuss those statements with management and the auditors. In addition, the committee should consider legal, regulatory and ethical matters that have a potential financial impact.

Working with Auditors

The audit committee should be the primary focus for the company's relationship with the external auditors. It should make recommendations to the board for the appointment of the auditors, agree the audit fees, review the scope of work, and hold private meetings with the auditors to discuss their findings. It should also review with the external auditors their independence. Where a company has an internal audit function, the committee should similarly review its capabilities, qualifications, resources, scope of work, and findings.

Communicating and reporting

The committee needs to have a constructive working relationship with management and should request presentations and information from management on specific issues. In

most countries, the committee works under delegated authority from and should report to the main board of directors or supervisory board. It is an increasingly good practice for the committee to report on behalf of the board to the shareholders, either at the general meeting or in the annual report.

Maintaining and measuring effectiveness

In a fast-changing environment, all audit committee members need to regularly update their knowledge and awareness, particularly of financial accounting standards and wider reporting issues. The committee should also regularly evaluate its performance against its responsibilities, as set out in its charter. This assessment can take place on an individual basis, and/or collectively for the committee as a whole.

Overview on areas of focus

An overview of the audit committee's main areas of responsibility, and issues relevant to each area, is shown in Illustration 1 below. It may be used as a template for discussion, to highlight particular key areas for each audit committee to address.

The publication is available for download at our PwC Singapore website.



Illustration 1 – Audit committees areas of focus

IASB Improvements Project Series

- IAS 2 *Inventories*, IAS 10 *Events After Balance Sheet Date* and IAS 33 *Earnings Per Share*

The International Accounting Standards Board (IASB) embarked on a project (generally referred to as *Improvements Project*) in 2001 to reduce or eliminate alternatives, redundancies and conflicts within the International Accounting Standards (IAS), to deal with some convergence issues and to make other improvements. Exposure drafts to amend 12 IASs were issued by IASB in May 2002 and locally, similar exposure drafts were issued in July 2002. The Board aims to conclude the Project by December 2003 and makes available to the public provisional final drafts of the revised standards.

This article is the first of a series of feature articles where we will highlight the key changes contained in the revised proposed standards, starting with IAS 2 *Inventories*, IAS 10 *Events After the Balance Sheet Date*, and IAS 33 *Earnings Per Share*.

IAS 2 *Inventories*

The IASB's main objective for IAS 2 is to reduce alternatives for the measurement of inventories. One of the main proposed changes was to prohibit the use of Last-In First-Out method for determining the cost of inventories. This change is retained in the provisional final draft of IAS 2. In addition, the following have been incorporated:

Measurement of inventories of commodity broker-traders

The exposure draft (ED) to IAS 2 excluded from its scope inventories of non-producers of agricultural and forest products and mineral ores to the extent that these inventories were measured at net realisable value. However, some respondents were of the view that this scope exemption should be extended to all types of inventories of broker-traders. They also highlighted that the industry valued such inventories using the mark-to-market approach, rather than at net realisable value.

Consequently, the provisional final draft of IAS 2 exempts inventories held by commodity broker-traders from the need to comply with the measurement rules in IAS 2. This is provided that the inventories are measured at fair value less costs to sell and the changes in fair value less costs to sell are recognised in income statement in the year of change. The carrying amount of inventories carried at fair value less cost to sell are required to be disclosed as well.

Inventories purchased with deferred settlement terms

Taking a step further, the provisional final draft of IAS 2 clarifies that when inventories are purchased with deferred

settlement terms, the difference between the purchase price for normal credit terms and the amount paid shall be recognised as interest expense over the period of financing. The ED to IAS 2 was silent on this matter.

IAS 10 *Events after the Balance Sheet Date*

The IASB's main objective for the revised IAS 10 is to clarify that dividends shall be recognised as a liability only when they meet the criteria of a present obligation in IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*. In other words, if an entity declares dividends after the balance sheet date, the entity shall not recognise those dividends as a liability at the balance sheet date. This clarification is retained in the provisional final draft of IAS 10. The provisional final draft is not significantly different from the ED to IAS 10.

IAS 33 *Earnings Per Share*

The IASB's main objective for revising IAS 33 is to provide additional guidance and illustrative examples on selected complex matters.

The major changes between the provisional draft of IAS 33 and the ED to IAS 33 are as follows:

Year-to-date Earnings Per Share (EPS)

The ED to IAS 33 proposed calculating EPS by taking a weighted average of the potential ordinary shares included in the diluted EPS reported during the interim periods. However, not all jurisdictions have similar interim reporting requirements and therefore a different EPS figure could be obtained merely as a result of reporting on a quarterly basis versus a semi-annual basis.

This approach is therefore replaced with a year-to-date approach in the provisional final draft of IAS 33, where:

- the number of potential ordinary shares shall be computed using the average market price during the year-to-date period; and
- contingently issuable shares shall be included in the computation of the diluted EPS (if certain conditions are satisfied) from the beginning of the year-to-date reporting period (or from the date of the contingent share agreement, if later).

IFRS News — December 2003 is now available

This issue launches a **feature series on IAS 39**, commencing with an article on the classification and measurement of financial assets and liabilities, taking into consideration the proposed revisions to IAS 39. It also includes the final article in the series on **power companies**, which puts into an IFRS context, the impact of emerging issues in the industry, including the changes in regulation and the liberalisation of the market. In addition, it explores the impact of the **harmonisation of South Africa GAAP with IFRS**, as well as **the role of IFRIC**, its work so far and the future.

From January 2004, IFRS News will begin a series of feature articles on IFRS issues for **oil and gas companies**.

IFRS News is a monthly newsletter produced by PwC Global Corporate Reporting Group and is available for free download at the PwC Global website.

Instruments that can be settled either in ordinary shares or in cash at the issuer's option

In calculating diluted EPS, the ED to IAS 33 contained a rebuttable presumption that instruments which could be settled either in ordinary shares or in cash at the issuer's option, would be settled in shares. This rebuttable presumption is inconsistent with the objective of obtaining the maximum possible dilution and hence, withdrawn from the provisional final draft of IAS 33.

All financial instruments or other contracts that may result in the issue of ordinary shares of the reporting entity at the option of the issuer or the holder are presumed to be settled in ordinary shares. The resulting potential ordinary shares shall be included in diluted EPS if the effect is dilutive. This treatment is consistent with the current requirements of SIC 24 *Earnings Per Share—Financial Instruments and Other Contracts that May Be Settled in Shares*.

Mandatorily Convertible Securities

The issuance of shares for mandatorily convertible securities is certain and depends only on the passage of time. Therefore, it should be included in the basic EPS calculation. This guidance,

which was silent in the Improvement ED, is provided in the provisional final draft of IAS 33.

Note:

As at 15 December 2003, in addition to IAS 2, IAS 10 and IAS 33 featured in this article, IASB has also issued the following provisional final drafts:

- *IAS 16 Property, Plant and Equipment*
- *IAS 17 Leases*
- *IAS 21 The Effects of Changes in Foreign Exchange Rates*
- *IAS 24 Related Party Transactions*
- *IAS 28 Accounting for Investments in Associates*
- *IAS 31 Financial Reporting of Interests in Joint Ventures*
- *IAS 40 Investment Property.*

The provisional final drafts are subject to review and possible minor editorial changes and corrections up to the point when IASB approves all the standards.

The provisional final drafts can be assessed in [IASB website](#).

**PwC Illustrative Annual Report 2003:
A guide to drafting your 2003 annual report**

This publication provides a sample annual report of a fictitious group. It illustrates the financial statements disclosures set out in the following regulations:

- Singapore Companies Act;
- Singapore Exchange Securities Trading Listing Manual; and
- Singapore Financial Reporting Standards and Interpretations

that are applicable for financial years commencing on or after 1 January 2003. It also includes selected global best practice disclosures.

In addition, this publication also includes an illustrative Directors Report, a sample corporate governance statement and a list of technical pronouncements in Singapore and a comparison between FRS and IFRS as of October 2003.

A copy of this publication is available for download at our [PwC Singapore website](#).



New Accounting Standards

FRS 101 and Practice Direction 2: First Time Adoption of FRS

- *What are the requirements and how does it affect you?*

The Council on Corporate Disclosure and Governance (CCDG) issued the Companies (Accounting Standards) (Amendment No. 3) Regulations 2003 on 27 November 2003 to legislate FRS 101 *First Time Adoption of Financial Reporting Standards*. FRS 101 is based on International Financial Reporting Standard (IFRS) 1 of the same name. FRS 101 is effective for financial periods commencing on or after 1 January 2004.

The general requirements

In general, FRS 101 requires an entity to apply retrospectively each FRS effective at the reporting date in preparing its first FRS financial statements, subject to limited exemptions and exceptions. In particular, FRS 101 requires an entity to do the following in the beginning of the earliest period for which an entity presents full comparative information under FRSs:

- (a) recognise all assets/ liabilities whose recognition is required by FRSs;
- (b) not recognise items as assets or liabilities if FRSs do not permit such recognition;
- (c) reclassify items that it recognised under previous GAAP as one type of asset, liability or component of equity, but are a different type of asset, liability or component of equity under FRSs; and
- (d) apply FRSs in measuring all recognised assets and liabilities.

Exemption to rules

The FRS 101 grants limited exemptions from the above requirements in specified areas where the cost of complying with them would be likely to exceed the benefits to users of financial statements. An entity may elect to use one or more of the following exemptions:

- (a) business combinations;
- (b) fair value or revaluation as deemed cost;
- (c) employee benefits;

- (d) cumulative translation differences;
- (e) compound financial instruments; and
- (f) assets and liabilities of subsidiaries, associates and joint ventures.

Areas where retrospective application is disallowed

FRS 101 prohibits retrospective application of FRSs in some areas, particularly where retrospective application would require judgments by management about past conditions after the outcome of a particular transaction is already known. This FRS prohibits retrospective application of some aspects of other FRSs relating to:

- (a) derecognition of financial assets and financial liabilities;
- (b) hedge accounting; and
- (c) estimates.

Disclosure requirements

FRS 101 requires disclosures that explain how the transition from previous GAAP to FRSs affected the entity's reported financial position, financial performance and cash flows.

Companies need not apply FRS 101 if they previously comply with SAS

Does the switch from previously applying Statements of Accounting Standards or SASs to FRSs represent a change in accounting framework?

CCDG issued Practice Direction 2 on the application of FRS 101 and clarified that FRS 101 would not apply to companies that had been complying with SASs. However, FRS 101 would apply to other companies preparing financial statements in compliance with FRSs for the first time.

Having said that, **adopting FRS for the first time may not be merely a straight forward conversion of the FRS-compliant financial statements.** Look out for a discussion of this topic in our next issue of Corporate Watch.

Practice Direction 3: FRS 39 Financial Instruments — Recognition and Measurement

FRS 39 which is effective from financial periods commencing on or after 1 January 2005, allows early adoption but does not allow retrospective application.

CCDG issued Practice Direction 3 on December 2003 restricting early adoption of FRS 39 to financial statements covering financial years commencing on or after 1 January 2003.

For copies of FRS 101 and Practice Directions 2 and 3, please visit CCDG website.

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