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Initial Public Offering (IPO) Process In Malaysia

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Initial Public Offering (IPO) is the process whereby a private corporation offers shares to the public via a new stock issuance, usually in an attempt to raise equity funds. The securities markets in Malaysia consist of three market platforms, including the Main Market, ACE Market and LEAP Market of Bursa Securities Malaysia Berhad (Bursa Securities).

This alert summarises the listing criteria for primary listing on the Main, ACE and LEAP Markets of Bursa Securities (collectively, the Markets) in addition to the general IPO process in Malaysia.

1. What Are The Main Regulations Surrounding The IPO?

The main regulations and requirements for listing companies on the respective Markets are mainly contained in the Capital Markets and Services Act 2007 and the respective Markets' listing rules issued by Bursa Securities.

2. What Are The Quantitative Admission Criteria For The Markets Of Bursa Securities?

Main Market

The companies intending to list on the Main Market are required to pass either one of the following quantitative tests:

- (a) Profit Test
 - (i) Uninterrupted profit of 3 to 5 full financial years, with an aggregate after-tax profit of at least RM20 million.
 - (ii) An after-tax profit of at least RM6 million for the most recent financial year.

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- (iii) The company must have been operating in the same core business over at least the profit track record prior to submission.
- (b) Market Capitalisation Test
 - (i) The company has to have a total market capitalisation of at least RM500 million upon listing.
 - (ii) The company must have been incorporated and generated an operating revenue for at least one full financial year prior to submission.
- (c) Infrastructure Project Corporation Test
 - (i) The company must have the right to build and operate an infrastructure project in or outside Malaysia, with project costs of not less than RM500 million.
 - (ii) The concession or licence for the infrastructure project must have been awarded by a government or a state agency, in or outside Malaysia, with a remaining concession or licence period of at least 15 years from the date of submission.

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ACE And LEAP Market

There is no minimum operating track record or profit requirement for admission to the ACE and Leap Markets.

3. What Are The Quantitative Criteria Required For Admission To The Markets?

LEAP Market

Companies looking to list on the LEAP Market must:

- (a) Engage an Approved Adviser to assess the suitability for listing.
- (b) Secure and maintain a Continuing Adviser for at least 3 years post listing and the Approved Adviser who submitted the listing application must act as the Continuing Adviser for at least 1 financial year upon admission.
- (c) Have an identifiable core business.

Main And ACE Market

The qualitative criteria required for both the Main and ACE markets are:

- (a) The core business of the company must not be the holding of investment in other listed companies.
- (b) There must be a sufficient level of working capital for at least 12 months from the prospectus date.

The following are the additional criteria for the Main and ACE Market respectively:

Main Market

Companies looking to list on the Main Market must:

- (a) Have an identifiable core business which the company has majority ownership and management control.
- (b) Have continuity of substantially the same management for at least 3 full financial years

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prior to submission (for the profit test) or since the commencement of operations (if less than 3 full financial years for the market capitalisation or infrastructure project corporation test).

- (c) Have a positive cash flow from the operating activities (for the profit test and market capitalisation test).
- (d) Have no accumulated losses based on the company's latest audited financial statements (for the profit test).
- (e) Have a sufficient level of working capital for at least 18 months from the date of prospectus (for mineral, oil and gas exploration and extraction corporations or assets).

ACE Market

Companies looking to list on the ACE Market must:

- (a) Engage a Sponsor to assess the suitability for listing.
- (b) Have sponsorship for at least 3 full financial year post listing and the Sponsor who submitted the listing application must act as the Sponsor for at least 1 full financial year following upon admission; or a sponsorship for one full financial year (for ACE Market corporations that have met the Main Market admission criteria).

Related Party Transactions' Requirements

The following criteria in relation to related party transactions are applicable to all of the Markets:

- (a) The related party transactions must be based on terms and conditions which are not unfavourable to the company.

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- (b) All trade debts exceeding the normal credit period and all non-trade debts, owing by the interested persons to the company or its subsidiary companies must be fully settled prior to listing.

4. What Are The Steps In The IPO Process?

Main And ACE Market

Stage 1: Pre-Submission

- 1) Appointment of the advisers
- 2) Structuring of the IPO
- 3) Due diligence & internal control review
- 4) Preparing the documents required for submission
- 5) Pre-Submission Consultation with the regulators and key stakeholders

Stage 2: Post-Submission for Approval

- 6) Public exposure of the prospectus
- 7) Queries from the regulators and visits by the regulators to the company's key business premises

Stage 3: Post-Approval

- 8) Appointment of an investor relations (IR) company
- 9) Execution of underwriting agreement (if required)
- 10) Registration and lodgement of the prospectus
- 11) Commencement of pre-marketing

Stage 4: Listing

- 12) Launch of Prospectus
- 13) Roadshows and book building exercise
- 14) Allocation of shares
- 15) Listing on the Main or ACE Market of Bursa Securities (Commencement of trading)

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About Us

We are a full-service commercial law firm with a head office in Kuala Lumpur and a branch office in Penang. Our key areas of practice are as follows:-

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- Mergers & Acquisitions
- Real Estate Transactions
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- Tax Incentives
- Trade Facilitation

LEAP Market

Stage 1: Pre-Submission

- 1) Appointment of the advisers
- 2) Structuring of the IPO
- 3) Due diligence & internal control review
- 4) Deposit/lodgement of information memorandum

Stage 2: Post-Submission for Approval

- 5) Review by of the authorities of following 3 focus areas:
 - a. Corporate Governance
 - b. Conflict of Interest
 - c. Public Interest

Stage 3: Listing

- 6) Placement of Shares
- 7) Listing on the ACE Market of Bursa Securities (Commencement of trading)

For more information on the IPO process in Malaysia, kindly refer to Bursa Securities' website.

Authored by Rowena Ng Zhi Ying, an Associate in the firm's Capital Markets and M&A Practice.

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