

# Listing Criteria

## (Criteria for Listing Examination of Stock, Article 6)

Applications from companies that satisfy the following criteria will be accepted and undergo examination by TSE.

### 1 Liquidity

The stocks on Mothers are traded by auction (market driven trade with price priority and time priority rules). Stock markets need to be high liquidity in order to allow those auctions function smoothly. Mothers has three criteria on stock liquidity:

( 1 ) Applicant should make, at the time of listing, public offering of minimum 1,000 trading units of newly issued shares, or a public offering of minimum 1,000 trading units of newly issued shares and previously issued shares, of which minimum 500 trading units should be of newly issued shares.

(CLES: Art. 6-1 (1)a)

(Note) Each share stands for one single unit when share-trading unit is introduced, and one single share when share-trading unit is not introduced. (same as hereinafter)

Applicant needs to accomplish its public offering of, at least 1,000 trading units of, newly issued shares when it goes on listing. They could also sell their outstanding shares together with the new shares (the total number of shares should be minimum 1,000) on the condition that minimum 500 new shares are issued at the time of listing.

Here are some examples: if a company offers 1,000 new shares, they are meeting the criteria (total 1,000 shares with more than 500 new shares); if a company offers 800 new shares and sells 200 outstanding shares (total 1,000 shares with more than 500 new shares) they are also meeting the criteria; if a company offers 400 new shares and sells 600 shares (total 1,000 shares with less than 500 new shares) they are not meeting the criteria as the number of new shares does not reach the

minimum 500 requirement.

The principle of this criteria is that Mothers secures high liquidity by sufficient floating shares and that Mothers expects newly listed companies to expand further with the capital raised at their listing.

Note: If a Mothers-listed company is to spin off part of its business through “jinteki spin-off”, that is, a method of spin-off where shareholders of the company are allocated all or some of the shares issued in conjunction with the spin-off, and application is made for listing of such spun-off division of the company before the spin-off takes effect, TSE does not require an applicant to make a public offering at the time of listing, for such requirement could prevent the applicant from smoothly executing the spin-off procedure.

Instead, TSE requires the number of shares to be allotted to shareholders of the listed company, excluding the ten biggest shareholders and persons having special relationship, to be not less than 1,000 units by the time of listing.

( 2 ) Applicant should secure minimum 300 new shareholders by the initial public offering at the time of listing. (CLES: Art. 6-1 (1)b)

TSE has set minimum number of new shareholders so that the market is able to avoid cases where a few shareholders would dominate most of the shares causing market liquidity hampered.

Note: If a Mothers-listed company is to spin off part of its business through “jinteki spin-off”, and application is made for listing of such spun-off division of the company before the spin-off takes effect, for which no public offering is made at the time of listing, TSE requires the number of shareholders holding the shares allotted to the shareholders of the listed company, excluding the ten biggest shareholders and persons having special relationship, to be not less than 300 by the time of listing.

( 3 ) A market capitalization of at least JPY 1 billion at the time of listing (Calculated by multiplying the number of shares to be listed by their public offering price) . (CLES: Art. 6-1 (2))

The article regulates the minimum market value of the applicant and TSE has set it JPY 1 billion for Mothers.

Public offering price, in this context, means the share price that has been stated in the Registration Statement as the standard value for calculation of offering price.

Note: If a Mothers-listed company is to spin off part of its business through “jinteki spin-off”, and application is made for listing of such spun-off division of the company before the spin-off takes effect, for which no public offering is made at the time of listing, TSE requires, in order to help calculate the market capitalisation at the time of listing, submission of “Estimated Valuation of Shares to be Listed.”

## 2 Financial Status

Turnover, for the business which the LU has deemed eligible for Mothers (SLR: Art.3-2(10)a), should be recorded by the day prior to the listing application date. (CLES: Art. 6-1(3))

TSE has established Mothers with a concept that it is a stock market for the young, emerging companies that are going to lead the next generation of economy. By providing early access to funding, TSE expects those companies to develop and expand further. Thus applicant’s past performances (profits, etc.) are not required as listing criteria.

However, if the business is still being planned or going through a feasibility assessment stage and yet to generate any significant revenue, it is not considered eligible for listing.

Applicant is able to demonstrate its eligibility by recording its turnover by the day prior to the listing application date.

Size of sales is not considered but its figure for the business that has been regarded as the applicant’s core line should be recorded. The turnover regarding other lines of the applicant will not be taken into account.

“Amount of shareholders’ equity” or “profit before extraordinary items”, which are required for listing on the 1<sup>st</sup> and 2<sup>nd</sup> sections, are not asked for Mothers. This allows companies with asset deficiency or deficit balance can still apply for listing if they have strong possibility for growth.

### **[ Listing companies whose turnover is less than JPY 100 million in the fiscal year immediately prior to application ]**

If applicant did not produce required turnover in the fiscal year immediately prior to its application, which is JPY 100 million, they should disclose “Summary of Business Plan” on the day of listing. (exempt when the profit before extraordinary items is positive) (RTD: 2-7) They are also required to disclose the information whenever changes or corrections arise.

Summary of Business Plan should include documents that can demonstrate that there is little likelihood for the company’s sales figure to fall into the delisting criteria (Please see page95). In other words, the Plan should state one of the following prospects: the turnover to be recorded in the fiscal year of application (or in the year of listing when listing did not take place in the same year of application) will be JPY 100 million and above; profit before extraordinary items is expected in the business year of application (or in the year of listing when listing did not take place in the same year of application).

Note: If a Mothers-listed company is to spin off part of its business through “jinteki spin-off”, and application is made for listing of such spun-off division of the company before the spin-off takes effect, TSE recognizes turnover from the spun-off division to be also taken into account.

## **3 Continuous Trading Record**

An applicant must have a continuous trading record, under the board of directors, of not less than one year dating back from the day on which it makes listing application. (CLES: Art.6-1(3)2)

Japanese Companies Act (Law No.86, 2006) does not require all joins-stock companies to set up the board of directors. On the other hand, the board of directors of a publicly listed company, in the light of ensuring effective corporate governance, is expected to exercise sufficient monitoring functions, that is, evaluating appropriateness and efficiency of executive officers’ execution, which should be duly reflected in the decisions concerning the directors’ compensation, nomination and

dismissal, thereby preventing conflict of interest from arising.

By meeting this criterion, applicants for Mothers are expected to implement sufficient levels of corporate governance as discussed above.

An applicant which has set up the board of directors more than one year prior to the listing application day, but has a trading record of shorter than one year of its business for which the LU has deemed its eligibility for Mothers (SLR: Art.3-2(10)a), satisfies the criterion as long as the company has operated another business in the precedent period.

Note 1: Where an applicant has merged with another company in the recent past, TSE also takes into account the period during which time the aforementioned business had been operated by the Merger company (the company, the business of which is the largest of those of all the companies party to such merger. Which company has the 'largest business' is to be determined by TSE based on total assets, net assets, revenue, profits etc. of all the companies involved in the merger.)

Note 2: Where an applicant is a holding company, TSE also takes into account the period during which time the aforementioned business has been run by the applicant's subsidiaries. Please note that the subsidiaries mentioned here are those companies that are the main operators of the applicant's business.

An applicant should also note that a holding company here means a company within Japanese jurisdiction as defined in the Article 9, Sec. 5(1) of the Act Concerning Prohibition of Private Monopolization and Maintenance of Fair Trade, No. 54 enacted in 1947, or a company TSE deems appropriate based on the premise of the article.

Note 3: Where an applicant plans to take over a part or a business of, another company as a result of that company being split (including subsequent incorporation as well as in-kind contribution) into more than two entities or selling its businesses, TSE also takes into account the period during which time the aforementioned business has been run by such another company. Please note that the part or the business to be taken over by the applicant has to be the business for which the LU has deemed its eligibility for Mothers.

Note 4: Where an applicant is to take over a business of a TSE listed company via a jinteki spin-off and submits the listing application prior to such spin-off, TSE examines in its listing examination the main areas of business at the time of spin-off and considers the period during which time such main businesses have been run by the listed company.

Note 5: Where an applicant has been a party to more than one of those corporate actions mentioned in the Notes 1 to 4 since the start of the business year in which it is to make a listing application, TSE also takes into account the period during which time the aforementioned business has been run by whichever company party to any of such corporate actions and TSE deems appropriate.

### 3 Financial Statements

(1) The auditors' report( accountant's opinion) which states that the financial statements submitted are 'fair' on 'unqualified terms' or 'fair' on 'qualified terms' is attached to the Securities Report for Listing Application. (Excluding the ones attached to the financial statements that have been issued in the latest fiscal year) (CLES: Art.6-1(4)a)

(2) The auditors' report(accountant's opinion) which states that the financial statements for the latest fiscal year and the latest interim business period submitted by applicant are 'fair' on 'unqualified terms' or, 'Appropriate and sufficient information is provided.', is attached to the Securities Report for Listing Application. (The ones attached to the financial statements for the latest fiscal year only) (CLES: Art.6-1(4)b)

In order to reinforce audit system of each company, the audit procedure required by the Securities and Exchange Law should be carried out as an audit corporation or a group collaboration by an audit corporation or a team of qualified accountants. (Note 1)

The period of contract between the applicant and the auditors is subject to the judgment of the auditors.

'Premise of going concern' was introduced in the fiscal year ended March 2004 requires auditors' assessment of 'fair' on 'unqualified terms' in their opinion report for the previous fiscal year. (Note 2)

If there are questions on applicant's 'Premise of going concern', auditors' additional comments may be required. This does not always prevent the listing application, still, TSE will need to examine the applicant's financial statements to see if sufficient countermeasures have been provided.

(Note 1) The environment for accounting audit is changing considerably with globalization of capital markets and corporate activities, with advancement of information technologies, with reformation of accounting and audit standards. These changes demand yet further credibility on fair audit of disclosed information by certified public accountants.

Thus further sophisticated audit system is required, and long-term relationship with particular auditor should be avoided in order to keep auditor's independence. TSE would like to ask future listed companies to employ audit corporations or accounting firms that are well organized and reliable.

(Note 2) When semi-annual audit report for the interim business period is attached to 'Securities Report for Listing Application' with the opinion of 'useful information', application can be accepted without 'fair' opinion on 'unqualified terms' on 'Premise of going concern'.

(3) A "Falsehood or omission of the statement" (Note1) has not been made in "Securities Report." (Note2) which any of financial statements or semi-annual financial statements covered by the above auditors' report (accountant's opinion) are included or referenced. (CLES: Art.6-1(4)c)

(Note1) 'Falsehood or omission of the statements' are the statements in Securities Report., that have been subjected to correction or accusation by Prime Minister or others, or any amended documents submitted that have been regarded as subject to correction.

(Note2) "Securities Report " means as follows;

- registration statement of a securities contains, document attached thereto and reference documents on the statement

- shelf registration statement, document attached thereto and reference documents on the statement
- supplementary document to shelf registration, document attached thereto and reference documents on the supplementary document to the document
- securities report and document attached thereto
- semiannual report
- prospectus

## 4 Appointment of Shareholder Service Agent

Applicant is to have contracted, or has agreed to contract, with one of shareholder service agents by the time of application. (CLES: Art. 4-1(9))

In order to prevent illegal issuance of shares, as well as to promote stock circulation and effective administration, applicant needs to have contracted or has agreed to contract with one of the shareholder service agents (the ones that have been approved by TSE).

Various administrative tasks on shares, including share registration and transfer, share issuance, safe custody of unissued share certificates, will be outsourced to shareholder services agents. Such agents are expected to be reliable and efficient enough to gain investors' trust.

(Note) The shareholder service agents approved by TSE are; trust banks, Daiko Clearing Services Corporation, Tokyo Securities Transfer Agent Co., Ltd. and Japan Securities Agents, Ltd.

## 5 Forms of certificate

The forms of certificates should meet TSE's requirements and they should be confirmed at a board meeting. (CLES: Art.4-1(10))

Forgery and falsification of share certificates would damage the smooth and stable operation of stock markets, having grave influence on the economy as well as society. In order to avoid such circumstances, TSE asks applicant to issue shares that meet the following mandatory requirements:

- a. Name of the printer and multi-coloured-stripe pattern is printed.
- b. One of the following is watermarked: applicant's corporate name, applicant's company emblem or printer's seal which has been previously submitted to TSE.
- c. Certificates are produced by the printers TSE recognized as appropriate institutions. (Note1)

If the certificates which do not meet the above requirements (hereinafter called 'unqualified certificates') have already been issued, they need be replaced with those which satisfy the requirements (hereinafter called 'qualified certificates') before the day of listing (Note2 and 3). Please note resolution by board meeting is required for the issuance of qualified certificates in such cases.

Above rule will apply to all the shares to be issued after listing.

( Note1 ) The printers TSE has so far approved are: Dai Nippon Printing Co., Ltd., Toppan Printing Co., Ltd., Kyodo Printing Co., Ltd., Asia Securities Printing Co., Ltd., Semi Securities Printing Co., Ltd., Shoei Printing Co., Ltd., Tosho Printing Co., Ltd., Sun Messe Co., Ltd., National Printing Bureau. If applicant wishes to use a printer other than above, they need to consult TSE in advance.

( Note 2 ) When the number of unqualified certificates can be considered negligible in stock markets, it is not always mandatory for the applicant to collect and replace them with qualified certificates before the day of listing. However, the applicant will be required to continue trying to collect and replace the unqualified certificates.

( Note 3 ) When there has been a change with applicant's trade name, the certificates with their old trade name would be invalid for settlements.

( Note 4 ) When applicant's trade name is the same as one or more of the listed companies, please contact your LU or TSE (at its Listing Examination Division) before actual application.

## **6 Restrictions on Transfer of Stocks**

<p>There should be no restrictions on transfer of stocks for which listing is sought. (CLES: Art. 4-1(11))</p>
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Companies are permitted to restrict transfer of shares by adding such provisions

to their articles of association. On the other hand, stock market is a free and open market that can be accessed by investors in general. Restrictions on stock transfer do not follow this principle, thus applicant is requested not to apply any conditions on transfer of stocks for which listing is sought.

If restrictions of stock transfer have been already employed for stocks to be listed, the applicant needs to modify the articles of incorporation before application.

(Note) When the restriction of share transfer has been introduced under particular legal requirements, such as under Broadcast Law or Aviation Law, they will be accepted as exception as long as they will not harm TSE's stock markets.

## **7 Agreement with Japan Securities Depository Center**

Applicant has agreed, or is to have agreed, to deposit their securities into a central securities depository, Japan Securities Depository Center, Inc.

(CLES: Art. 4-1(12))

All the settlements for stocks and beneficiary certificates of exchange traded funds (hereinafter called 'securities') on TSE's markets are completed through book-entry transfer at TSE's designated securities depository, Japan Securities Depository Center, Inc. (hereinafter called 'JASDEC').

Therefore, applicants are requested to have concluded an agreement to deposit their securities with JASDEC. If they have not, they are to conclude agreement with JASDEC before the day of listing.

JASDEC provides safekeeping and book-entry system for clients' securities. This will help enhance the efficiency and liquidity of securities trade.

Listed companies are able to receive following merits by using JASDEC:

- Reduction of amount of paper works for stock transfer
- Reduction of costs for issuance of new certificates due to stock splits and reverse stock splits

		Mothers	Section 2	Section 1
Number of shares (units) listed		Offering of 1,000 or above for issuing new shares/new shares and outstanding shares at the time of listing (minimum 500 new shares)	4,000 or above at the time of listing	100,000 or more at the time of listing (20,000 or more for transferring from Mothers/Section 2 to Section 1)
Description of shares	Shares held by beneficial owners	—	75% or under	70% or under
	Number of share holders	300 or more should be secured by offering new shares or selling outstanding shares at the time of listing	<ul style="list-style-type: none"> <li>• Less than 10,000 shares: 800</li> <li>• 10,000 shares or more and less than 20,000 shares: 1,000</li> <li>• More than 20,000 shares: 1,200</li> <li>• 1,200 + 100 at every additional 10,000 shares (maximum 2,200)</li> </ul> When minimum investment amount is JPY 100,000 or more and less than JPY 500,000, the number of shareholders could be 1/2 or more of the above (minimum 500)	<ul style="list-style-type: none"> <li>• Less than 30,000 shares: 2,200</li> <li>• 2,200 + 100 at every additional 10,000 shares (maximum 2,200)</li> </ul> When minimum investment amount is JPY 100,000 or more and less than JPY 500,000, the number of shareholders could be 1/2 or more of the above (minimum 2,200).
Continuous Trading Record		Trading record of not less than one year under the board of directors.	Trading record of not less than three year under the board of directors.	Same as Section 2
Shareholders' equity (consolidated)		—	JPY 1 billion or more at the end of the fiscal year prior to application (applicant's own figure should be more than 0)	Same as Section 2
Market capitalization at the time of listing		JPY 1 billion or more	JPY 2 billion or more	JPY 50 million or more (JPY 4 billion or more for transferring from Mothers/Section 2 to Section 1)

	Mothers	Section 2	Section 1
Profit before extraordinary items (PBEI) (whichever is smaller of the two: consolidated amount of PBEI or consolidated amount of current net profit)	—	a. During the previous 2 years: (a) 1 <sup>st</sup> year: minimum JPY 100 million (b) 2 <sup>nd</sup> year: minimum JPY 400 million b. During the previous 3 years: (a) 1 <sup>st</sup> year: minimum JPY 100 million (b) 3 <sup>rd</sup> year: minimum JPY 400 total 3 years: minimum JPY 600 million	Same as Section 2
Turnover	Sales amount is recorded for the applicant main business	—	—

For your reference: Listing Criteria Comparison Table

(Note) When the profit before extraordinary items requirement has been met,

	Mothers	2 <sup>nd</sup> section	1 <sup>st</sup> section
Market capitalization (Note)	—	JPY 100 billion or more and the profit for the latest year is JPY 10 billion or more	Same as 2 <sup>nd</sup> section
Falsehood or omission of the statements or auditors' opinion	<p>a. Auditors' opinion report (Excluding the latest fiscal year), which are attached to 'Securities Report for Listing', gives opinion of 'fair' on 'unqualified terms' or 'fair' on 'qualified terms'</p> <p>b. Auditors' opinion report for the latest fiscal year and the half-fiscal year, which are attached to 'Securities Report for Listing', gives opinion of 'fair' on 'unqualified terms'</p> <p>c. A "Falsehood or omission of the statement" has not been made in "Securities Report." which any of financial statements or semi-annual financial statements covered by the above auditors' report (accountant's opinion) are included or referenced</p>	<p>a. No 'falsehood or omission of the statement' for the last 2 years (for the last 3 years when case 'b' is applied for 'profit before extraordinary items') in "Securities report."</p> <p>b. Auditors' opinion is 'fair' on 'unqualified terms' or 'fair' on 'qualified terms' for the last 2 years (for the last 3 years when case 'b' is applied for 'profit before extraordinary items')</p> <p>c. Auditors' opinion is 'fair' on 'unqualified terms' for the latest year</p>	Same as 2 <sup>nd</sup> section (in case of transferring from Mothers/Section 2 to Section 1, No 'falsehood or omission of the statement' for the last 5 years and auditors' opinion is 'fair' on 'unqualified terms' or 'fair' on 'qualified terms' for the last 5 years)
Appointment with shareholder service agent	Administrative works are outsourced to one of the TSE approved shareholder service agents	Same as Mothers	Same as Mothers
Form of certificates	Certificates meet mandatory requirements by TSE	Same as Mothers	Same as Mothers
Restriction on stock transfer	No restrictions on transfer of shares for which listing is sought	Same as Mothers	Same as Mothers
Agreement with JASDEC	Agreed or is to have agreed to deposit the securities in to JASDEC	Same as Mothers	Same as Mothers
Number of shares (units) traded	—	—	Monthly average of 200 or more in the last 3 months (when transferring from Mothers or Section 2)

Market capitalization requirement can be exempted.

