

SELECTIVE CAPITAL REDUCTION AS A DELISTING METHOD

I. Delisting of Best World International Limited

1. Earlier this year, Best World International Limited (“**Best World**”) announced its intention to undertake a delisting exercise by way of a selective capital reduction (“**SCR**”). The SCR entailed the cancellation of the issued ordinary shares in the capital of Best World held by shareholders of the company, in consideration for S\$2.56 per share. Following which, the aggregate sum of S\$377,901,806 which arose from the SCR would be returned to eligible shareholders in cash. After court approval was obtained in regards to the SCR, Best World requested for the SGX-ST to suspend the trading of its shares with effect from 9.00 a.m. on 5 September 2024.
2. Best World had explored various options (such as a voluntary general offer and a scheme of arrangement) and determined that the best option was to undertake the SCR, as it (a) offered a higher exit offer price for eligible shareholders as compared to other possible options since the SCR would not involve any bank borrowings, fees or commissions, had less if any external financing requirements, and would incur lower professional fees and involve fewer professional parties; (b) was an exercise that could be led and controlled by Best World instead of being dependent on external third parties (as in the case of a voluntary general offer); and (c) had fewer requirements to be satisfied (unlike a scheme of arrangement).
3. Our Mr. Adrian Chan, who is the Head of the Corporate Department at Lee & Lee and was the Lead Independent Director at Best World, is well-placed to provide further insights into this process. Interested parties are encouraged to contact Lee & Lee for more information regarding SCR as a potential delisting option.

II. Selective Capital Reduction as a Delisting Method

4. Generally, we observe that SCR has been less commonly utilized for delisting compared to other alternatives. Nevertheless, there is a discernible trend of increasing adoption of this approach by companies. We have set out two case studies below which have utilised SCR as a delisting method, and their rationales for doing so.

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5. It should also be noted that pursuant to Rules 1306 and 1309 of the Singapore Exchange Securities Trading Limited (“**SGX-ST**”) Listing Rules (Mainboard) (“**Mainboard Rules**”), where a SCR is used as a delisting method, the offer made by the company must be fair and reasonable.

(A) NGSC Limited

6. NGSC Limited (“**NGSC**”) had been placed on the watch-list under Rule 1311 of the Mainboard Rules. Despite the SGX-ST granting an extension for NGSC to meet the requirements under Rule 1314 to exit the watch-list, NGSC repeatedly failed to comply, leading to the SGX-ST's decision to delist NGSC under Rule 1315. The company was then required by Rules 1306 and 1309 to offer shareholders a reasonable exit alternative.
7. A SCR was chosen by NGSC due to two main reasons:
 - a. Lack of Alternatives: The controlling shareholders of NGSC were not in a position to make an exit offer for all the shares of the company, and NGSC was also unable to source viable cash alternatives from other parties. Additionally, talks in relation to a potential acquisition had also led to no outcome.
 - b. Viability and Efficiency: In comparison to other viable exit alternatives such as a voluntary winding up, a SCR was a more viable and efficient exit proposal due to the shorter timeline and pricing.

(B) PSL Holdings Limited

8. Similar to the above, PSL Holdings Limited (“**PSL**”) had also been placed on the watch-list under Rule 1311. As PSL was unable to exit the watch-list, it was to be delisted per Rule 1315. As the company sought to offer shareholders a reasonable exit alternative, a SCR was chosen by PSL for the following reasons:
 - a. Preservation of Business: The board of directors initially determined for the company to be liquidated by way of a members’ voluntary liquidation. However, as PSL’s business subsequently began to show signs of improvement, the major shareholders were of the view that the business may be worth preserving as a going concern and determined that a SCR would be more appropriate than a voluntary winding up.
 - b. No Offer: As the shareholdings in PSL were fragmented, no single major shareholder was in a position to make an offer to acquire all the shares of the other shareholders.

III. Selective Capital Reduction as a Squeeze-Out Method

9. On 18 October 2018, Wheelock Properties (Singapore) Limited (“**Wheelock**”) was delisted following the close of a voluntary unconditional general offer by its Hong Kong-listed parent, Wheelock and Co. Ltd., through its subsidiary Star Attraction Ltd. (“**Star Attraction**”). At the

end of the offer, valid acceptances totalled 136,261,655 offer shares, which equated to approximately 11.39 percent of the total issued shares.

10. In August 2019, after Wheelock had been delisted for about a year, Star Attraction directly held an aggregate of 1,183,562,814 shares, which represented approximately 98.9% of the total number of issued shares. The remaining 12,997,062 shares, which represented approximately 1.1% of the total number of shares in issue, were held by shareholders of Wheelock ("**Participating Shareholders**") other than Star Attraction. Lee & Lee then represented Wheelock in its implementation of a SCR, whereby it proposed to cancel all the ordinary shares in the company not directly held by Star Attraction, at a consideration of S\$2.10 in cash per share.
11. The SCR was proposed to give participating shareholders the opportunity to exit (in cash) their investment in the shares in entirety. It was noted by Wheelock that following the delisting, it had become difficult for the participating shareholders to exit their investment in the shares at a reasonable valuation and at a reasonable volume, given the lack of a public market for the shares. Apart from the above, the SCR could also be viewed as a mechanism to completely privatise a delisted company which still has minority shareholders.

IV. Commentary

12. As a method of delisting, SCR may be a more efficient process compared to other options like voluntary winding up, which is a crucial consideration when dealing with a company facing directed delisting. SCR is also a useful option where no single major shareholder is in the position to make a comprehensive buyout offer, as it allows for a structured reduction of capital and a mechanism to address all shareholders fairly without requiring a single party to acquire all shares.
13. SCR can also be used where the company still has potential to thrive as a going concern, as it allows the company to remain operational. Further, the SCR process is generally under the control of the board of directors and the company's management, which can enable them to tailor the exit strategy to best meet the needs of the company and its shareholders.
14. Apart from being used as a delisting method, the SCR is a flexible mechanism which can also be used to completely privatise a delisted company which still has minority shareholders.
15. In summary, SCR has proven to be a versatile and efficient method for both delisting and managing shareholder exits, and its increasing role as a strategic tool for delisting and shareholder management is demonstrated by the recent use of SCR by companies like Best World, NGSC, PSL and Wheelock Properties.

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V. Contact Us

16. For further information on privatisation and delisting options, or for any queries on the delisting of Best World, please contact our Mr. Adrian Chan (adrianchan@leenlee.com.sg), Mr. Lun Chee Leong (luncheeleong@leenlee.com.sg) or Ms. Liane Lim (lianelim@leenlee.com.sg).

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