

MAIN MARKET AND ACE MARKET

ISSUERS COMMUNICATION

GUIDANCE ON DISCLOSURES IN NOTES TO QUARTERLY REPORT (ICN 1/2017)

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1. INTRODUCTION

A listed issuer's financial statements provide vital information about its financial health which is essential for shareholders and investors to make informed investment decisions. The financial statements, which primarily comprise the statement of profit & loss and other comprehensive income, statement of financial position and statement of cash flow also serve as a communication tool to keep the shareholders and investors informed about a listed issuer's financial condition. Therefore, it is important that a listed issuer always ensures that its financial statements are informative, comprehensive and of high quality, to enable shareholders and investors to be apprised of the listed issuer's financial condition, including its financial performance, financial position, cash flow, risk exposure and future prospects.

In this regard, Bursa Malaysia Securities Berhad's ("**Bursa Securities**") Main Market and ACE Market Listing Requirements (collectively defined as "**LR**"):-

- (a) require a listed issuer to announce its unaudited financial statements on a quarterly basis (2 months after the end of each quarter of a financial year) and annual audited financial statements on an annual basis (4 months from the close of the financial year); and
- (b) prescribe additional information to be included in the notes to quarterly report ("**QR**") as set out in Part A of Appendix 9B.

The notes to the QR are intended to help shareholders and investors understand the financial information by providing additional explanation of the various parts of the QR, without clouding the financial data reported in the QR. Hence, the notes are considered an integral part of the QR.

In addition, Malaysian Financial Reporting Standard 134 on Interim Financial Reporting also requires an entity to include in its interim financial report, an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the entity since the end of the last annual reporting period. For this purpose, the Standard states that the entity shall include the specific information set out in the Standard, in the notes to its interim financial statements. Listed issuers are advised to refer to the latest accounting standards on Interim Financial Reporting for further guidance on the disclosure requirements.

While we note that the disclosures provided in the notes to the QR have improved over time, we have also observed that there are areas where disclosures could be enhanced.

As such, this ICN 1/2017 aims to provide guidance to the listed issuer towards enhancing the quality of its disclosures in the notes to the QR particularly in providing detailed explanations, commentaries or analysis on factors that may have contributed to material changes in the listed issuer's financial performance.

The guidance and recommendations set out in this ICN 1/2017 are not meant to be exhaustive. A listed issuer is expected to make its own assessment to ensure the information provided is adequate and meaningful by taking into account its specific circumstances and the industry it operates in.

2. DISCUSSION AND ANALYSIS ON GROUP'S FINANCIAL PERFORMANCE

Paragraphs 1 & 2 of Part A, Appendix 9B of LR

A listed issuer must include the following information in the Notes to the QR:

- A detailed analysis of the performance of all operating segments of the group, setting out material factors affecting the earnings and/or revenue of each segment for the current quarter and financial year-to-date.
- An explanatory comment on any material change in the profit before taxation for the quarter reported on as compared with the immediate preceding quarter.

2.1 Presentation Format

In order to assist shareholders and investors analyse the data and trend of financial performance, the financial information should be presented in a reader-friendly manner. One way is to present it in a tabular format as shown in Table 1 and Table 2 respectively.

Table 1: Financial review for current quarter and financial year to date

	Individual Period (2 nd quarter)		Changes (Amount /%)	Cumulative Period		Changes (Amount /%)
	Current Year Quarter	Preceding Year Corresponding Quarter		Current Year To- date	Preceding Year Corresponding Period	
	30/6/20	30/6/19		30/6/20	30/6/19	
Revenue						
Operating Profit						
Profit Before Interest and Tax						
Profit Before Tax						
Profit After Tax						
Profit/(Loss) Attributable to Ordinary Equity Holders of the Parent						

Table 2: Financial review for current quarter compared with immediate preceding quarter

	Current Quarter 30/6/20	Immediate Preceding Quarter 31/3/20	Changes (Amount / %)
Revenue			
Operating Profit			
Profit Before Interest and Tax			
Profit Before Tax			
Profit After Tax			
Profit/(Loss) Attributable to Ordinary Equity Holders of the Parent holders of the parent			

2.2 Group's Financial Performance Review And Segmental Analysis

2.2.1 Overall Review of Group's Financial Performance

A listed issuer should provide a commentary and discussion on the material changes of the major components of the statement of profit & loss and other comprehensive income, statement of financial position as well as statement of cash flow. This commentary and discussion are typically provided on a group basis as part of the overall review of the listed issuer group's financial performance.

2.2.2 Segmental Analysis

Whilst the general overview above provides the key changes at the group level, it is also important that more details are provided on each operating segments to facilitate better understanding of the performance of each operating segments within the group. In this regard, the listed issuer should provide segment information (comprising segment revenue, profit, assets and liabilities) relating to its operating segments.

Depending on the nature of business and industry in which a listed issuer operates in, the segment information can be prepared based on the following categories:-

- (a) strategic/functional business units;
- (b) geographical location (domestic/overseas market); or
- (c) type of products/services

Where a listed issuer has business operations in overseas markets, it should, to the extent possible, disclose the breakdown of segment revenue, profit, assets and liabilities that is denominated in foreign currencies and the currency exchange ratio used.

Based on the information provided in each operating segment, a listed issuer can further enhance the disclosures by providing a more detailed analysis and discussion on the material factors affecting its operations.

2.2.3 General Considerations

In providing the detailed analysis and discussions on the financial performance of each operating segment, a listed issuer should discuss, among others, the following factors (which are not exhaustive):

- (a) market condition and demand for its goods and services;
- (b) level of its operating activities;
- (c) factors or circumstances affecting the changes to the revenue, costs and profit margin of each operating segment such as:
 - (i) changes in the cost of raw materials and whether there is any exposure to foreign currencies and its impact;
 - (ii) increase/decrease in sales volume and the reasons for such changes (e.g. cyclical or seasonal factors);
 - (iii) operational efficiency (i.e. optimization of production capacity and output);
 - (iv) natural disasters such as fire, flood, El-Nino etc. that may affect the business operations and financial performance of the listed issuer;
 - (v) changes in staff costs; and
 - (vi) changes in finance costs.
- (d) any unusual or one-off gains/losses affecting profit (i.e. foreign currencies fluctuation or revaluation of assets);
- (e) diversification of new range of products or penetration into new markets;
- (f) merger and acquisition exercises;
- (g) procurement of new contract/termination of existing contract;
- (h) impairments of assets or receivables;
- (i) fair value gain on investment; and
- (j) foreign labour issues.

A listed issuer should refrain from making a general statement that the revenue and profit for the period has increased or decreased by a certain percentage without any detailed elaboration on the factors or reasons that contributed to such changes

2.2.4 Specific Considerations

Other than the general considerations stated above, a listed issuer may also refer to the following examples of industry/sector specific information as additional factors for discussion. This will provide more pertinent as well as in-depth discussion and analysis of the Group's financial performance.

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Industry/sector specific	Disclosure items for consideration
Plantation	<ul style="list-style-type: none"> • Total land size of planted area (hectare) • Profile of tree (mature/ immature area) • Fresh Fruit Bunch (FFB) production output (metric tonne) • FFB yield per hectare • Crude Palm Oil (CPO) production output • Average CPO price per tonne • Average FFB price per tonne • Oil extraction rate • Average production cost (per hectare) • Replanting activities
Properties	<ul style="list-style-type: none"> • Total land bank • New launches (i.e. project name and type of development such as commercial or residential project) • Gross property sales by project • Unbilled sales • Percentage of completion to-date for each project
Construction	<ul style="list-style-type: none"> • Total outstanding order book together with completion date • Description of construction project undertaken i.e. type of construction, name of project, owner of project, project value and its duration • Progress updates on each project
Industrial	<ul style="list-style-type: none"> • Product mix and sales volume for each product • Commentary on product's pricing trend • Capacity utilization rate • Changes in production output • Changes in raw material price
Consumer	<ul style="list-style-type: none"> • Quarterly sales volumes • Breakdown of profit for each division • Number of new stores opened or number of stores closed down (where relevant) • Group's retail networks to be broken down by brands/market (domestic/overseas)
Trading/Services	<p><u>Telecommunication</u></p> <ul style="list-style-type: none"> • Breakdown of subscribers base between prepaid and postpaid • Average revenue per user (ARPU) in the prepaid and postpaid segments <p><u>Gaming/hotels</u></p> <ul style="list-style-type: none"> • Average room rates and number of rooms booked • Breakdown of revenue between gaming and others. <p><u>Oil/gas service providers</u></p> <ul style="list-style-type: none"> • Outstanding order book and tender book • On-going project lists and targeted completion dates • Average utilisation rate for rigs and other assets
Technology	<ul style="list-style-type: none"> • Sales volumes and utilisation • Total order book

3. GROUP BORROWINGS AND DEBT SECURITIES

Paragraph 10 of Part A, Appendix 9B of LR

A listed issuer must disclose in the Notes to the QR, its group borrowings and debt securities as at the end of the reporting period:

- (a) whether secured or unsecured, and a breakdown between secured and unsecured, if applicable;
- (b) breakdown between short term and long term borrowings; and
- (c) whether denominated in foreign currency, and a breakdown of the debt/borrowings in each currency, if applicable.

3.1 Presentation Format

In disclosing group borrowings and debt securities, details of the same are important to enable/facilitate a more comprehensive assessment of a listed issuer's financing activities and funding risks by shareholders and investors.

Towards enhancing readability and understanding, information on the group borrowings should be disclosed and presented in the table below:

	As at 2 nd quarter ended 2020					
	Long term		Short term		Total borrowings	
	Foreign denomination ^	RM denomination	Foreign denomination ^	RM denomination	Foreign denomination ^	RM denomination
Secured <i>(state type of borrowings such as term loan, syndicated loan, revolving credit facilities etc)</i>						
Unsecured <i>(state type of borrowings such as term loan, syndicated loan, revolving credit facilities etc)</i>						
	As at 2 nd quarter ended 2019					
	Long term		Short term		Total borrowings	
	Foreign denomination ^	RM denomination	Foreign denomination ^	RM denomination	Foreign denomination ^	RM denomination
Secured <i>(state type of borrowings such as term loan, syndicated loan, revolving credit facilities etc)</i>						
Unsecured <i>(state type of borrowings such as term loan, syndicated loan,</i>						

<i>revolving credit facilities etc)</i>						
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^ State the type of foreign currencies and exchange rate. Where the group borrowings are denominated in foreign currency, the RM equivalent of such borrowings should also be stated.

3.2 Commentaries On Group Borrowings And Debt Securities

A listed issuer should also provide a commentary on the material changes to the borrowings. In this regard, the commentary should include the following information:-

- (a) detailed explanations on the material changes to the borrowings as at the current year to-date compared with the corresponding period in the immediate preceding year;
- (b) the following details if there is any significant increase or reduction in the borrowings:
 - (i) the propose utilisation of additional borrowings in the event of an increase; or
 - (ii) the amount repaid and net interest savings per annum in the event of a reduction;
- (c) weighted average interest rate of borrowings and the proportion of debt that is based on the fixed interest rate and floating interest rate; and
- (d) where the borrowings are denominated in foreign currencies, a statement whether the amount borrowed is hedged to RM and the average exchange rate or if there is none, the reason(s).

4. GROUP'S PROSPECT

Paragraph 3(a) of Part A, Appendix 9B of LR

A listed issuer must disclose in the Notes to the QR, a commentary on the prospects, including the factors that are likely to influence the corporation's prospects for the remaining period to the end of the financial year or the next financial year if the reporting period is the last quarter.

Discussion of past financial results alone may be inadequate to shareholders and investors as they would want to understand whether historical financial performances are indicative of future trends or outlook of a listed issuer's business and performance.

As such, in providing the discussion and analysis of the group's prospect, a listed issuer should, to the extent possible, be reasonably specific on the factors that would affect its future financial performance, operating activities, liquidity and investment plans.

In discussing the group's prospects, a listed issuer should disclose in detail the prospects on each segment activities and the material factors that are likely to influence the listed issuer's prospects for the remaining period of the financial year or the next financial year if the reporting period is the last quarter. The discussion should include, amongst others, the following details:

- (a) the prospects of each of the group's operating segments, including contracts at hand, tender book value, competitive challenges, customer trend and supply constraint;
- (b) significant changes in raw material costs and selling prices affecting demand and profit margins;
- (c) financial impact arising from currency fluctuation and steps taken to mitigate such fluctuation;
- (d) changes in product or service mix and their impact on profit margin;
- (e) financial impact from recently completed acquisition, disposal or merger;
- (f) new regulations or rules which may affect the group's operating activities; or
- (g) any changes in business direction or new development of the group which may have an impact on the prospects of any operating segment.

It is important to note that the information on the group's prospects must be reasonable, realistic and balanced. A listed issuer should provide both the positive and negative factors affecting its business so that shareholders and investors will not be misled by an overly-optimistic or overly pessimistic view of the listed issuer when making their investment decision. If a listed issuer intends to include any financial estimate, forecast or projection in its discussion on the prospect, it must ensure paragraph 2.19A of the LR is complied with at all times. Any material business or operational risks that could potentially affect the achievement of the future prospects must be highlighted.

A listed issuer should take note that a general statement such as "the board is optimistic of achieving better performance for the financial year" or "the board expects the group's results for the remaining period to be profitable", without elaborating on the details recommended above is undesirable and hence, should be avoided.

5. STATUS OF UTILISATION OF PROCEEDS RAISED FROM CORPORATE PROPOSAL

Paragraph 9(b) of Part A, Appendix 9B of LR

Where applicable, a listed issuer must disclose in the Notes to the QR, a brief explanation of the status of utilisation of proceeds raised from any corporate proposal, including an initial public offering, which must include the information prescribed in the following table:

Purpose	Proposed Utilisation	Actual Utilisation RM'000	Intended Timeframe for Utilisation	Deviation amount		Explanations (if the deviation is 5% or more)
				Amount (RM,000)	%	
(i)						
(ii)						
(iii)						
Total						

Typically, the funds raised by a listed issuer, whether through its initial public offering or secondary fund raising, are used primarily for business expansion, acquisition of other companies/assets, working capital and repayment of borrowing. As the proposed utilization of proceeds may be spread over a period of time until it is fully utilized, a listed issuer should make periodic disclosure (via notes to QR) on the utilization of proceeds as and when the funds are disbursed in the manner as disclosed in the announcement or circular to shareholders.

In doing so, a listed issuer is also encouraged to provide the latest updates on the status of utilisation of proceeds. For example:-

- (a) where the proceeds are earmarked for acquisition of other companies/assets
 - (i) status of completion;
 - (ii) reason for the delay (if any) and its impact to the listed issuer; and
 - (iii) expected completion date.

- (b) where the proceeds are used for business expansion via construction of new plant/factory
 - (i) percentage of completion to-date;
 - (ii) reason for the delay (if any) and the financial and operational impact to the listed issuer; and
 - (iii) increase (in percentage) of the production capacity and output.

- (c) where the proceeds are used for repayment of borrowings
 - (i) net interest saving per annum upon actual repayment.

6. RECOMMENDED ADDITIONAL DISCLOSURE INFORMATION

In addition to the mandatory minimum disclosure requirements (as prescribed under the LR and accounting standards), a listed issuer should provide additional information in the notes to explain the items in the QR to facilitate more meaningful review and discussion of the financial results and financial condition.

The following are some of the items where additional disclosures and clarifications are encouraged.

6.1 Other Income/Expenses

A listed issuer should disclose the breakdown of the other income/expenses (if the amount is material) during the period under review by stating clearly the amount and nature or type of these income/expenses e.g. restructuring costs, gains/losses on disposal of assets, write off/write back of receivable or inventories, etc.

The improved disclosure will assist shareholders and investors to identify any anticipated risks that a listed issuer is exposed to and understand the future trends with more certainty.

6.2 Foreign Exchange Exposure/Hedging policy

A listed issuer which expands its operations abroad would invariably be exposed to foreign exchange fluctuation, which may in turn affect its earnings. Hence, such listed issuer should provide detailed disclosure on the breakdown of foreign exchange exposure, hedging policy (if any) and management of foreign currency fluctuation risk

so that shareholders and investors are given better visibility and insights into the impact of such matters on the listed issuer.

6.3 Trade Receivables

A listed issuer should provide the following additional information to enhance transparency on the terms of the trade receivables:-

- (a) breakdown of the average credit terms of trade receivables granted to related parties and non-related parties;
- (b) ageing analysis of trade receivables and commentary on the recoverability of trade receivables which exceed the average credit terms granted; and
- (c) where the trade receivables involve related parties, the identity of related parties, nature of such transactions and an explanation if the credit terms granted are different from those granted to non-related parties.

In the case where there is a material provision for, and write-off of, trade receivables during the period under review, a listed issuer should also disclose the following:

- (a) reasons for providing for and writing-off the trade receivables; and
- (b) steps taken to recover the trade receivables before it is deemed uncollectable.

6.4 Material Impairment Of Assets

When assets are impaired, such impairment will be recognised as a loss in the statement of profit & loss and other comprehensive income.

In this respect, it would be beneficial to shareholders and investors if the following information is disclosed for any material impairment of assets:

- (a) description of assets impaired;
- (b) breakdown of the asset's carrying value in the book against its market value; and
- (c) reasons to undertake the impairment of assets including the methodology used and its reasonableness to determine the value to be written off/impaired.

[End]