2017

MANAGEMENT DISCUSSION & ANALYSIS DISCLOSURE GUIDE

BURSA MALAYSIA SECURITIES BERHAD
March 2017

Table of Contents

MANAGEMENT DISCUSSION & ANALYSIS DISCLOSURE GUIDE

1. INTRODUCTION

Bursa Malaysia Securities Berhad's ("**Bursa Securities**") regulatory framework is aimed primarily at maintaining market integrity and investor protection. In this regard, reliable, informative and timely disclosures are key towards building a corporate community that is open and transparent.

Given the ever-changing capital market environment, there is a greater demand by shareholders and public at large for the disclosure of comprehensive and relevant non-financial information to complement the information provided in the financial statements. This will assist them in making informed investment decisions.

Against this backdrop, the introduction of mandatory disclosure of Management Discussion & Analysis ("**MD&A**") in the annual reports for the financial year ended 31 December 2016 onwards is timely and important as it will provide more value added information to all shareholders.

The MD&A will provide shareholders and investors with information needed to assess the underlying drivers of the listed issuer's financial and operational performance and a more in-depth understanding on its financial results, risk exposure as well as the outlook and expected future performance.

In addition, the MD&A disclosures will also serve as one of the core communication tools between the listed issuer and its shareholders and present an opportunity for the directors and senior management of the listed issuer to share with its shareholders and investors with further insights and a deeper understanding of the management's view on their business strategy, financial position, operations and prospects.

1.1 OBJECTIVES OF MD&A

The MD&A is aimed at achieving the following objectives:

(I) Enable shareholders and investors to view and understand the listed issuers' performance, financial condition, risk exposure and future prospects through management's eyes and viewpoint.

(II) It is not meant to repeat the information contained in the financial statements but to complement the financial statements by providing material non-financial information such as business operation, financial position/condition, key trends and risks, strategies and prospects to shareholders and investors that may not be reflected in the financial statements to facilitate better comprehension and deeper understanding by the shareholders and investors.

1.2 PURPOSE OF MD&A DISCLOSURE GUIDE (“this Guide”)

The issuance of this Guide is part of Bursa Securities’ continuing commitment to share our expectation and guide our listed issuers towards implementing good disclosure practices.

This Guide is designed to assist listed issuers, its directors and senior management in presenting the MD&A disclosures in a clear and meaningful manner, with emphasis on quality and relevant material information by:-

(a) providing practical guidance to listed issuers so that they can meet both the letter and the spirit of the Listing Requirements (“**LR**”); and

(b) outlining/setting out what Bursa Securities considers to be good disclosure practices through examples and recommended practices.

In this regard, this Guide is not meant to impose additional regulatory requirements to the listed issuers, nor in any way, amend or vary listed issuers’ obligations under the LR.

The guidance provided here should be applied in a sensible and flexible manner, taking into account the specific circumstances of listed issuers. The recommended practices provided under Section 3 of this Guide set out the MD&A information that is likely to meet the reasonable expectations of investors and shareholders in terms of the business and performance of the listed issuer. The recommended practices are described in broader terms so that listed issuers are able to tailor their disclosures to their particular circumstances.

The disclosure examples set out under Section 3 of this Guide, on the other hand, are intended to illustrate the disclosures which are considered to be inadequate compared with disclosures which are more appropriate in meeting shareholders' needs.

The examples and recommended practices are not meant to be exhaustive and should not be used as standard disclosure templates. The examples are to be treated strictly as examples for your reference and understanding only. They are not meant to be followed in a mechanical or restrictive manner. In crafting the MD&A disclosures, listed issuer is expected to assess whether the information provided is sufficient to aid investors and shareholders in understanding its performance, financial condition and prospects, taking into account its specific circumstances.

2. GENERAL DISCLOSURE PRINCIPLES

2.1 Principle 1

THROUGH THE EYES OF MANAGEMENT

A listed issuer should disclose information that enables its shareholders to view its business through the eyes of management.

The MD&A disclosures are aimed at providing management's explanation and assessment of your business, results, financial condition and future prospects including risks. The information disclosed to your shareholders should be factual, accurate and sufficient to reflect the management's view of managing your business undertaking. The disclosure should place more emphasis on matters which are significant to your listed issuer as a group.

2.2 Principle 2

COMPLEMENTING FINANCIAL STATEMENTS

The MD&A should complement and supplement the information in the financial statements.

A good MD&A should not repeat or replicate what is in the financial statements but it should complement and supplement the financial statements by explaining the information set out in the financial statements and provide insights and perspective to the financial information in order to assist your shareholders and investors appreciate the context, reasons and underlying factors that affect your results and performance.

The MD&A disclosures should also contain all material financial and non-financial information that is not presented in the financial statements but is relevant for your shareholders in understanding the historical results and assessing future prospects.

2.3 Principle 3

FORWARD-LOOKING ORIENTATION

The MD&A should include explanation of significant changes and trends in your listed issuer's financial position and performance and any information that helps your shareholders assess the extent to which historical performance and past events are likely to be indicative of, and have a material impact on future prospects.

Forward looking information provided should be realistic and reflect the outcome considered reasonably likely by management. The information should also provide the basis on which the forward looking information is made and the potential for it to vary from actual results.

Additionally, the information disclosed should be comparable across time and other companies of same/similar industry. This is to enable easy comparison and identification of the main trends and factors in charting the strategies of your listed issuer.

Discussion of your listed issuer's achievements, progress of its medium-term and long-term goals and its strategic direction should be included to assist your shareholders in understanding how your listed issuer creates shareholder value.

2.4 Principle 4

CONTENTS THAT ARE BALANCED, MEANINGFUL AND UNDERSTANDABLE

The MD&A should contain information which is balanced, meaningful and understandable to facilitate decision-making by your shareholders.

The MD&A disclosures should be presented in a fair and neutral manner. The MD&A should reflect both the positive and negative aspects of your listed issuer's business. Information should also be unbiased so that your shareholders will not be misled and are able to make an objective assessment of your listed issuer's operations and performance.

Disclosing meaningful information in the MD&A entails providing complete information which is up-to-date, relevant and reflects your listed issuer's specific circumstances and industry in which it operates. This will avoid distracting your shareholders and keep them focused on key information which can aid in their evaluation of your listed issuer's strategy, business, performance, financial condition, risks and prospects. For this purpose, the emphasis of the MD&A should be on explanations, commentaries and analysis. This includes in-depth discussions on factors that may have resulted in significant changes in the performance and financial position of your listed issuer.

In addition to the above, your listed issuer should always ensure that disclosures made in the MD&A comply with the disclosure obligations set out in the LR[1].

To enhance its usefulness and improve its readability, the MD&A should be written in a clear and simple manner, using plain language. Where appropriate, graphs and charts should also be used to assist understanding of the matters discussed.

In making the MD&A disclosures, your listed issuer needs to balance the value of the information against the potential commercial risks arising from such disclosures. In this regard, your listed issuer should provide adequate and informative disclosures and in doing so, assess the nature and extent of information set out in the MD&A and determine the necessity of any specific parts that is commercially prejudicial or sensitive which may affect its competitiveness

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1 See paragraph 2.18 on the contents of statement, information or document; paragraph 2.19A on the requirements pertaining to financial estimate, forecast and projection; and disclosure obligations under Chapter 9 of the LR, in particular, paragraph 9.08 on thorough public dissemination; paragraph 9.12 on no promotional disclosure activity and paragraph 9.16 on the content of press or other public announcement.

3. GUIDANCE ON PREPARATION AND DISCLOSURE

3.1 Disclosure Obligations under the LR

Under the LR[2], a listed issuer is required to disclose a statement containing the MD&A of the group's business, operations and performance (including financial performance) during the financial year. The MD&A must include at least the following information:

(a) **overview of the group's business and operations** including its objectives and strategies for achieving the objectives;

(b) discussion and analysis of the **financial results and financial condition** including –

(i) commentary on financial and non-financial indicators to measure the group's performance;

(ii) significant changes in performance, financial position and liquidity as compared with the previous financial year;

(iii) discussion on the capital expenditure requirements, capital structure and capital resources; and

(iv) known trends and events that are reasonably likely to have a material effect on the group's operations, performance, financial condition, and liquidity, together with the underlying reasons or implications;

(c) **review of operating activities** including discussion on the main factors that may affect the operating activities of each principal business segment of the group, impact on future operating activities, and the approach or action taken in dealing with the effect or outcome of such matters on its business activities;

(d) any identified **anticipated or known risks** that the group is exposed to which may have a material effect on the group's operations, performance, financial condition, and liquidity together with a discussion of the plans or strategies to mitigate such risks; and

[2] See paragraph 7 in Part A of Appendix 9C in the Main Market LR and paragraph 8 of Appendix 9C in the ACE Market LR.

(e) **forward-looking statement** providing commentary on the –

(i) group's possible trend, outlook and sustainability of each of its principal business segment;

(ii) prospects of new businesses or investments; and

(iii) dividend or distribution policy, if any, and factors contributing to the dividend or distribution for the financial year.

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3.2 Overview of Group’s Business and Operations

LR Disclosure Obligations

Overview of the group’s business and operations including its objectives and strategies for achieving the objectives.

Guidance

Shareholders generally want to know what your listed issuer does, the group’s significant businesses and operations including its objectives and strategies, as the information provides them with a starting point to assess and understand your listed issuer’s performance and prospects.

However, if a less significant business is anticipated to become a key business segment in your listed issuer’s future strategy, a discussion on how your listed issuer intends to grow such business, should also be highlighted.

The MD&A should also discuss the business objectives your listed issuer expects to achieve within a specific timeframe together with the strategies and action plans that will help it achieve the objectives. This enables shareholders to know the direction your listed issuer is headed to and the priorities for action to deliver the results.

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Recommended Practice

Focus areas	Suggested disclosure items
Business and operations	Information on the group's business and operations should include, but not limited to, the following: • significant business segments; • principal products or services; • location of the business operations; • principal markets or geographical presence, including the market share and how it is derived; and • customer and supplier profile. Where possible, the disclosure, should be supplemented with a table highlighting a 5 years snapshot of financial information relevant to its business operations.
Objectives and strategies	The information should include the following : • long-term and short-term goals for each significant business segment; • management considerations for mergers and acquisitions activities or via organic growth; • new product development; • new distribution networks or market reach; • strategies to minimize the impact of rising raw material costs; • expected timeline or milestones to achieve the stated objectives; • any anticipated risks and challenges to achieve the business objectives or carry out the strategies; and • Significant changes in objectives and strategies from previous period(s).

Examples of disclosure

The table below sets out the examples of better disclosures and inadequate disclosures as illustration.

In order to assist your understanding of the disclosure in a more meaningful manner, we have specified the following facts in which the examples are to be read:

- the listed issuer is a mid-sized listed issuer;
- it has 1 business segment in the manufacturing and trading of process equipment with three types of products – Products X, Y and Z; and
- the group's operations are carried out in Malaysia and their products are sold in Malaysia and overseas markets.

Examples of disclosure on group's business & operations

Examples of inadequate disclosures	Examples of better disclosures
Company profile Our group is involved in the manufacturing and trading of process equipment for the industrial, power, environment and renewable energy sectors. **Vision** To be a high performance manufacturer and trading of process equipment delivering sustainable shareholder value to all stakeholders. ***Commentary*** *There is lack of disclosure in the following areas:*	**Company profile** Our group is involved in the manufacturing and trading of process equipment for the industrial, power, environment and renewable energy sectors. Our group is an established participant in its market, holding a global market share of approximately 30%. Our group has five (5) manufacturing operations of which three (3) are located in Selangor and two (2) are located in Johor. **Vision** Our group strives to be a high performance manufacturer and trading of process equipment delivering sustainable shareholder value to all stakeholders.

<table>
<tr>
<td>

- *Group's business and operations such as its principal activities, location of operations and key markets.*
- *Strategies to meet the business objectives.*
- *Analysis on the group's financial information.*

</td>
<td>

<u>Principal activities of our Group</u>

- manufacturing Products X, Y and Z;
- trading of process equipment; and
- providing after-sale support services.

<u>Key markets</u>

Malaysia (x%), Singapore (x%), Australia (x%), China (x%), Japan (x%), Thailand (x%), Indonesia (x%), United Kingdom (x%) and European countries (x%).

<u>Strategies in creating value</u>

- enhance brand value via sustainable practices, innovation and support service excellence;
- enhance returns on invested capital via innovative, sustainable product portfolio and differentiation;
- enhance profitability and operational excellence with state-of-the-art technology;
- form strategic partnership in selected countries; and
- develop competencies and skills that increases job efficiency and effectiveness resulting in higher productivity.

<u>Highlights of our group's financial information for the past 5 financial years (in table form)</u>

<u>Financial</u>

- Revenue
- Profit before interest and tax
- Finance costs

</td>
</tr>
</table>

	• Net profit • Shareholders' equity • Total assets • Borrowings • Debt/Equity (%) • Earnings per share • Net assets per share • Dividend per share **Share performance** • Year high • Year low • Year close • Trading volume • Market capitalization (as at the financial year end)

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3.3 Review of Financial Results and Financial Condition

LR Disclosure Obligations

Discussion and analysis of the financial results and financial condition including:

(a) commentary on financial and non-financial indicators to measure the group's performance;

(b) significant changes in performance, financial position and liquidity as compared with the previous financial year;

(c) discussion on the capital expenditure requirements, capital structure and capital resources; and

(d) known trends and events that are reasonably likely to have a material effect on the group's operations, performance, financial condition, and liquidity, together with the underlying reasons or implications.

Guidance

The MD&A should provide a detailed and comparative analysis and discussion of past financial results including the factors or reasons underlying its results. Where the financial results include discontinued operations, the discussion and analysis of results should focus on continuing operations with explanation how the continuing operations have been affected by the discontinued operations. The discussion should also highlight significant matters affecting your listed issuer's financial status. This is to enable your shareholders to have an informed understanding of your listed issuer's financial performance and condition during the financial year.

Among others, the disclosure of detailed analysis and discussion should cover significant changes of your listed issuer's performance, financial position (i.e. assets and liabilities) and liquidity, including each of the major revenue and costs components of the income statement during the financial year as compared with the previous financial year together with the reasons for the changes.

One off gains or expenses such as impairment losses, restructuring costs or gains/losses on disposal of assets should be highlighted and explained to your shareholders so that they are aware that such gains or loss is unlikely to recur in subsequent financial years.

The MD&A should discuss your listed issuer's total financing needs and how it intends to finance its overall business and operations. For example, the significant capital expenditure requirements expected to be incurred during the financial year should be highlighted and discussed. A meaningful analysis of the listed issuer's ability to generate sufficient cash-flow to address its working capital requirements and its ability to access financing to meet its committed expenditure requirements should also be provided.

The MD&A should also include the key trends that may have significant impact to your listed issuer's operations, performance and financial condition. The identification of the key trends may present an opportunity to grow your listed issuer and/or help to manage the risks which would keep your listed issuer ahead of your competitors.

Recommended Practice

Focus areas	Suggested disclosure items
Financial & non-financial indicators	
Performance indicators	The commentary should include – • the indicators used, identifying whether they are financial or non-financial, corporation specific or used industry wide • explanation of significant changes in the results of the indicators used If there is any change in the indicators used, to provide the reasons for the change. Examples of indicators include gross margin, return on equity, production volume, economic value added etc.
Significant changes in performance, financial position and liquidity	
Revenue	Significant changes attributed by the following: • selling price • sales volume or higher production output and capacity

Focus areas	Suggested disclosure items
	• new products • new acquisitions
Profit before tax (PBT)	Significant changes on PBT attributed by the following: • staff costs • finance costs • impairments of assets or receivables • currency condition • one-off gain or loss
Other comprehensive income – foreign currency translation	Significant changes in foreign currency translation arising from foreign operations and how the foreign currency fluctuation risk is managed.
Assets	Significant changes on each type of assets attributed by the following: • major acquisition/disposal of companies • acquisition/disposal of assets • impairments • revaluation of assets
Liquidity	• Factors that influence the cash flow for the current period and any known factors that may have a significant effect on future cash flows
Capital requirements, structure & resources	
Capital expenditure requirements	Discussion on capital expenditure requirements may include the following: • amount, nature and purpose of the capital requirements • expected source of funds to meet the capital requirements • total capital expenditures required to

Focus areas	Suggested disclosure items
	maintain the group's capacity and growth, if any
Capital structure and capital resources	Discussion on capital structure and capital resources may take into account the following: • how does your listed issuer intend to generate working capital and capital resources in the short and long term to maintain capacity or to meet its business plan • if there is a shortfall in working capital, what is your listed issuer's ability to meet its obligations and the means of doing so.
Known trends and events	The following items should be highlighted and discussed – • any known trends or events, including balance sheet conditions, income or cash flow items that may affect your listed issuer's operations, performance, financial condition and liquidity; and • steps or measures to address these concerns.

Examples of disclosure on review of financial results & financial condition

Examples of inadequate disclosures	Examples of better disclosures
Revenue	
The Group revenue increased from RM2.0 billion to RM2.5 billion during the financial year, an increase of 25% as compared to the previous	The Group revenue increased from RM2.0 billion to RM2.5 billion during the financial year, an increase of 25% as compared to the previous financial year. The increase in revenue was mainly due to

<table>
<tr><th>Examples of inadequate disclosures</th><th>Examples of better disclosures</th></tr>
<tr><td>financial year.

<u>Commentary</u>

The disclosure is too general and merely repeats the information in the financial statements. There is no analysis given on the increase in revenue.</td><td>the following:

• introduction of Product X during the financial year arising from the acquisition of ABC Sdn Bhd which produces Product X;
• increase in production volume and sale price of Product Y;
• increase in the group’s market share of Product X in China; and
• off-set by lower sales of about RM100 million from Product Z due to aggressive competition from low price manufacturers.

The acquisition of ABC Sdn Bhd contributed about 10% of the total group’s revenue.</td></tr>
<tr><td colspan="2">PBT & expenses (i.e. costs)</td></tr>
<tr><td>The Group’s profit before tax increased by 30% from RM600 million in the previous year to RM780 million for the current year, mainly due to higher sales of Products X and Y, and the acquisition of subsidiary ABC Sdn Bhd during the year.

<u>Commentary</u>

There is lack of depth in the disclosure of the significant changes i.e there is no disclosure on –
▪ changes in the costs structure; and
▪ the reasons that</td><td>The Group’s profit before tax increased by 30% from RM600 million in the previous year to RM780 million for the current year, mainly due to the higher sales of Product Y and introduction of Product X arising from the acquisition of subsidiary ABC Sdn Bhd during the year.

Operating expenses increased by 10% to RM110 million during the year as compared to RM100 million in the previous year. This included the marketing and development expenses which continued to increase as we expanded our capabilities and our reach into the region.

Staff costs rose by 10% as the Group continued to focus on talent building and development to support our vision of transforming into a high performance manufacturer and trading of process equipment.</td></tr>
</table>

Examples of inadequate disclosures	Examples of better disclosures
caused significant changes on each of the major costs components.	There was an increase in median salaries by about 5% in real terms, as we compete for prospective employees to draw new resources for the group's regional markets expansion. Total finance costs which increased by RM14 million to RM51 million was mainly attributable to the increase in borrowings of RM500 million (from RM1.3 billion as at 30 June 20X5 to RM1.8 billion as at 30 June 20X6) principally used to fund the acquisition of ABC Sdn Bhd. The Group's weighted average interest rate on borrowings however declined from 3.95% in FY20X5 to 3.45% in FY20X6 mainly due to the lower interest rates on the RM400 million new Medium Term Notes raised during the year.
Assets	
Trade Receivables Trade receivables increased by 30% to RM550 million during the financial year. **Inventories** There was significant increase in inventories to RM200 million from RM120 million at the end of the previous financial year. **Cash and bank balances**	**Trade Receivables** Trade receivables increased by 30% to RM550 million during the financial year. This was primarily due to: • the acquisition of subsidiary, ABC Sdn Bhd which accounted for 70% of the increase; and • higher sales during the current financial year as compared to collection. **Inventories** There was significant increase in inventories to RM200 million from RM120 million at the end of the previous financial year. This mainly consist of RM60 million increase in process equipment held for sale, as well as increase in work-in-progress relating to the group's products.

Examples of inadequate disclosures	Examples of better disclosures
The Group's bank balances increased by 45% to RM290 million from RM200 million. ***Commentary*** *There is a lack of detailed analysis of the reasons or factors for the increase in trade receivables, inventories and cash/bank balances during the financial year.*	**Cash and bank balances** The Group's bank balances increased by 45% to RM290 million from RM200 million and this was primarily due to the proceeds received from the following: ▪ disposal of factory buildings of RM50.0 million; and ▪ issuance of private placement of shares during the financial year of RM40 million.
Liabilities	
Trade and other payables The Group's trade and other payables increased by 50%, compared with the previous financial year. ***Commentary*** *The disclosure merely repeats the information stated in the financial statements and without further details on the reasons for the increase in trade and other payables.*	**Trade and other payables** The Group's trade and other payables increased by 50% from RM160 million in the previous financial year to RM240 million. This was primarily due to the consolidation of ABC Sdn Bhd which accounted for RM70 million and the increase in accrued expenditures towards the financial year end as the Group commences the production of new orders.
Capital structure and capital resources	
The Group's borrowings increased by 38% from RM1.3 billion at the end of	The Group's borrowings increased by about 38% from RM1.3 billion at the end of the previous financial year to RM1.8 billion

Examples of inadequate disclosures	Examples of better disclosures
the previous financial year to RM1.8 billion. ***Commentary*** *The disclosure merely highlights the fact that borrowings has increased without stating, among others, the source and the reasons for the increase. There is lack of disclosure on capital structure and capital resources.* *Disclosure should include a detailed discussion and analysis of the listed issuer's capital structure and gearing position.*	primarily due to the following: • issuance of RM400 million new Medium Term Notes to acquire ABC Sdn Bhd, and • foreign exchange losses on translation of the Group's USD borrowings also contributed to the increased borrowing balances in 20X6. With the above additional borrowings, the group's gearing ratio (total group borrowings over group's total equity) has increased to about 1.3 times as at the end of 20X6 as compared to 1.0 times in the previous year. The Group remains prudent in maintaining a sound financial position that enables the execution of our strategic objectives in creating value over the coming years.
Known trends and events	
The Group is experiencing declining sales of Product Z. ***Commentary*** *Lack of information about the reasons for the declining sales of Product Z.*	The Group is experiencing declining sales of Product Z due to structural pressure on the industry such as aggressive competition from low price manufacturers, continued shift towards low price products and declining capital expenditure by customers, which create business and financial difficulties for many process equipment manufacturers. As a result, China's sales performance for Product Z was below expectation on lower equipment deliveries due to softening in the industrial and power sectors.

3.4 Review of Operating Activities

LR Disclosure Obligations

Review of operating activities including discussion on the main factors that may affect the operating activities of each principal business segment of the group, impact on future operating activities, and the approach or action taken in dealing with the effect or outcome of such matters on its business activities.

Guidance

Shareholders generally want to know the group's overall operations, how well the group has performed in each business segment, and any significant changes to the operations during the financial year.

As such, the MD&A should discuss the key features of the group's operating activities and its capabilities or drivers in delivering the results for each of the group's principal business segments. The discussion should also highlight the key factors or dependencies that affect the operating activities, how they impact the future operating activities and a discussion of the measures taken to address them.

Recommended Practice

Focus areas	Suggested disclosure items
Operating activities	The MD&A discussion should include, among others, the following: ▪ actions or initiatives taken during the financial year such as - • entering into strategic alliances • joint-ventures or new acquisitions • research and development programmes • new products or services launched • penetration into new markets • expansion of production capacity or sales volume • improvement in productivity

<table>
<tr><th>Focus areas</th><th>Suggested disclosure items</th></tr>
<tr><td></td><td>

significant factors that had affected or may impact the group’s resources in delivering the operating results such as –

its aging plant and equipment
management or labour issues
outdated processes
lack of financial resources, etc.

approach or action taken in dealing with the above factors such as asset replacement plan, process improvement initiatives and capital raising exercise.
other plans to enhance operating activities such as the group’s expansion plans and productivity improvements (if applicable)

Where appropriate (depending on the nature of the business segments), the MD&A discussion should be supplemented with operational statistical information to illustrate the level of operating activities such as the following :

production volume/units;
average selling price;
gross profit margin;
operational utilization/capacity rates;
number of employees;
size of operations.

</td></tr>
<tr><td>Status of acquisitions or projects undertaken that may impact the operating activities</td><td>
The disclosure should include :

major acquisitions or projects undertaken by each business segments during the financial year;
value creation or financial impact of the acquisitions or projects; and
status update on the progress together with the indicative completion date, if such acquisitions or projects are still pending completion.

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Examples of disclosure on operating activities

Examples of inadequate disclosures	Examples of better disclosures
Operating activities	
The group's PBIT (profit before interest and tax) jumped 20% from RM700 million in 20X5 to RM840 million in 20X6. The increase was on the back of accelerated contribution from locked-in sales and the progress of completion of existing contracts, as well as effective cost management measures. ***<u>Commentary</u>*** *The above disclosure lacks detailed information. The discussion of operating activities was not supported by any operational statistical information.*	The group's PBIT (profit before interest and taxation) jumped 20% from RM700 million in 20X5 to RM840 million in 20X6. The increase was on the back of accelerated contribution from locked-in sales and the progress of completion of existing contracts, as well as effective cost management measures. Although the process equipment market remains challenging in 20X6, the group managed to attain a sales value of RM2.5 billion on the back of 680 units sold, compared with a sales value of RM2.0 billion or 550 units sold in 20X5. The higher units sold during the financial year was mainly due to the major capital expenditures incurred by renewable energy companies during the financial year as well as a wider market reach arising from the acquisition of ABC Sdn Bhd. During the financial year, the group reinforced its leadership position by accelerating R&D developments and offering a distinguished portfolio of sustainable process equipment. Existing contracts from Projects A and B are progressing as planned. As part of the strategic review on our operations, several collaborations and initiatives were undertaken during the financial year, which included the divestment of non-core assets as well as the strategic collaborations entered into with renewable energy companies to secure new process equipment contracts. The above strategy has enabled the group to secure 3 new contracts to supply process equipment to Projects D, E and F during the

<table>
<tr><th>Examples of inadequate disclosures</th><th>Examples of better disclosures</th></tr>
<tr><td></td><td>
financial year and this will add RM1.5 billion to the group’s order book.

<u>Key Operation Highlights</u>

<table>
<tr><th></th><th>20X6</th><th>20X5</th><th>20X4</th></tr>
<tr><td>Units sold (units)</td><td>680</td><td>550</td><td>530</td></tr>
<tr><td>Average gross profit margin (%)</td><td>16</td><td>17</td><td>15</td></tr>
<tr><td>% of local sales to overseas sales</td><td>55:45</td><td>60:40</td><td>65:35</td></tr>
<tr><td>Production capacity (units)</td><td>1000</td><td>700</td><td>700</td></tr>
<tr><td>Production volume (units)</td><td>700</td><td>560</td><td>500</td></tr>
<tr><td>No. of employees</td><td>2,050</td><td>2000</td><td>1900</td></tr>
<tr><td>Order book at year end (RM million)</td><td>9,000</td><td>8,200</td><td>7,000</td></tr>
</table>
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3.5 Anticipated or Known Risks

LR Disclosure Obligations

Identify any anticipated or known risks that the group is exposed to which may have a material effect on the group's operations, performance, financial condition, and liquidity together with a discussion of the plans or strategies to mitigate such risks.

Guidance

Shareholders and investors generally want to know the types of risks that the group is exposed to and how these risks may impact the group's business and its operating performance in the current period (e.g. contingent liabilities) as well as the expected outcomes. As such, management should identify and discuss any anticipated or known risks that the group is exposed to which may have a material effect on the group's operations, performance, financial condition, and liquidity. Only risks that are material and specific to the group and/or business segment should be discussed in the MD&A. The description of the material risks faced by the group should cover both exposures to negative consequences and potential opportunities.

In discussing the risks and opportunities affecting the operations, performance and financial condition of the group, management should also disclose the group's plans or strategies to mitigate such risks. This is to enable investors and shareholders to understand and evaluate your listed issuer's risks, how such risks impact your listed issuer's business and performance, as well as decisions regarding the way in which the risks are managed.

Discussion of the group's material risks need not necessarily be disclosed under a separate or standalone section in the MD&A statement. Instead, it can be discussed and disclosed throughout the MD&A under the appropriate parts of sections where such risks are prevalent.

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Recommended Practice

Focus areas	Suggested disclosure items
Anticipated or known risks and plans/ strategies to mitigate such risks	The MD&A should discuss and cover the following areas: • the risks that affect the group most significantly; • reasons why the group is exposed to such risks; • its impact on the group's business and performance; and • the group's plans or strategies to mitigate/eliminate such risks. The discussion on risks should also include trends and risks that are likely to have a material effect on the group's future operations, performance, financial condition and liquidity.

Examples of disclosure on anticipated or known risks

Examples of inadequate disclosures	Examples of better disclosures
Competition risk	
The Group's business is very competitive and faces stiff competition from other process equipment manufacturers operating in a lower costs environment. ***Commentary*** *The disclosure is boilerplate in nature and lack detailed discussion about the impact of the risk and the listed issuer's*	The Group's business is very competitive and faces stiff competition from other process equipment manufacturers operating in a lower costs environment. To remain competitive, the group will reinforce its positioning as the market leader in the manufacturing and trading of process equipment. This will be supported by continued investment in the training and development of staff, innovations to fit customers' requirements and application of technology for products improvements.

Examples of inadequate disclosures	Examples of better disclosures
strategy to mitigate competition risk.	Failure to do so may negatively impact the group's track record and industry reputation, leading to a loss of business to the competitors, which in turn could negatively affect the group's financial performance.
Single customer risk	
The group relies on a single customer which amounted to 20% of the Group's revenue. ***Commentary*** *Disclosure is too general and there is lack of discussion about the impact of the risk and the listed issuer's strategy to manage single customer risk.*	The Group relies on a single customer for the sale of its product Y which amounted to 20% of the Group's revenue and there is no assurance that the single customer will continue to purchase the group's products indefinitely. However, the Group is taking the necessary steps to grow its non-single customer business, and during this financial year, the non-single customer has delivered record sales with a growth of 25%. One of the key initiatives that was successfully achieved was a complete restructuring of the Group's sales network. This has resulted in much stronger teams in Malaysia and across various regional markets. The Group also initiates strategic collaborations, partnerships and alliances, to increase its market reach, particularly in the environment and renewable energy sectors.

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3.6 Forward-looking Statement

LR Disclosure Obligations

The forward-looking statement with the following commentaries:

(a) group's possible trend, outlook and sustainability of each of its principal business segment;

(b) prospects of new businesses or investments; and

(c) dividend or distribution policy, if any, and factors contributing to the dividend or distribution for the financial year.

Guidance

Discussion of past financial results alone is inadequate to shareholders or potential investors of the listed issuer. Your shareholders would want to understand whether past financial performances are indicative of future trends or outlook of your listed issuer's business and performance.

Although forward-looking statement provides less certainty as compared to historical financial information, it is beneficial to your shareholders or potential investors as it provides management assessment about the future prospects and direction of your listed issuer. It also helps your shareholders and investors understand how management intends to implement strategies for your listed issuer in the long term.

It is important that the information on forward-looking statement must be fair, realistic and balanced. Your listed issuer should provide both positive and negative factors affecting the business so that your shareholders and investors will not be misled by an over-optimistic or overly pessimistic view of your listed issuer when making their investment decision. Any material business or operational risks that could potentially affect the achievement of the future prospects must be highlighted.

It is also crucial that forward-looking information should be made with reasonable basis.

The MD&A should also provide a commentary on the overall return attributable to shareholders in terms of dividends. The commentary should discuss your listed issuer's dividend policy if the board has approved one, and the factors contributing to the policy for the financial year. The dividend policy should be sustainable after taking into consideration the group's business plan and cash flows.

Recommended Practice

Focus areas	Suggested disclosure items
Trend and outlook	The forward-looking statement should discuss the following: • your listed issuer's goals and objectives together with the drivers to achieve the desired results; • management insights of your listed issuer's business trends and any anticipated risks that your listed issuer is exposed to, together with the measures to address such risks; • the prospects of new businesses or investments acquired by your listed issuer during the financial year, if any; and • the prospects of the group as a whole, and for each business segment or each geographical market that the group has a presence in, if significant. The extent of the disclosure on the prospects will depend on the nature of the group's business and the industry that it operates.
Basis of preparation	The following should be disclosed: • the assumptions used in coming up with the prospects; and • basis for such assumptions. All the relevant information that may impact each of the business segment of the listed issuer should be disclosed and discussed.
Dividend policy	The following should be disclosed : • overall dividend/distribution policy approved by your board; and • factors taken into consideration that contribute to the dividend/distribution policy. If there is no dividend policy, to provide the reasons.

Examples of disclosure on forward-looking statements

<table>
<tr><th>Examples of inadequate disclosures</th><th>Examples of better disclosures</th></tr>
<tr><td colspan="2">Possible trend and outlook</td></tr>
<tr><td>Demand for process equipment is expected to remain steady with continued private investments in infrastructure projects relating to environment and renewal energy sectors.

Therefore, the Group expects the level of sales and profitability in 20X7 to increase in line with the regional economy.

<u>Commentary</u>

The disclosure is boilerplate in nature and there is lack of discussion about the basis for the expected increase in sales and profitability, and the strategies to achieve the desired results.</td><td>Demand for process equipment is expected to remain steady with continued private investments in infrastructure projects relating to environment and renewal energy sectors.

With the acquisition of ABC Sdn Bhd completed in June 20X6, the full year consolidation of its financial results will contribute positively to the Group's revenue growth in the coming years.

As the Group's products are sold globally, we are exposed to the risks associated with currency fluctuations. Therefore, exchange rate fluctuations of these currencies against Ringgit Malaysia may influence the group's reported financial results. However, this would be mitigated through hedging activities such as derivative contracts.

During the financial year, the Group secured RM1.5 billion of new orders and its current order book stands at RM9.0 billion with deliveries extending into 20X9.

In view of the above initiatives, the Group expects the level of sales and profitability in 20X7 will increase.

The following factors are envisaged to support the management's assessment on the increase in sales and profitability:

• increasing private and public investments in the environment and renewal energy sectors in the coming financial years;</td></tr>
</table>

Examples of inadequate disclosures	Examples of better disclosures
	• launching of sales opportunities for product X in new markets; • higher revenue contribution due to a full year consolidation of ABC Sdn Bhd; • increasing use of technology-based solutions to lower production costs and produce high quality process equipment; and • developing capabilities in support services to provide customers with reliability and capitalising on new business opportunities.
Dividend policy	
No dividend policy was disclosed. ***Commentary*** *There may be instances where the listed issuer may overlook disclosure of its dividend policy even though the board has approved such policy.*	The Board of Directors has approved a dividend payout policy of not less than 75% of its consolidated profit after tax (excluding exceptional items) for the financial year ending 31 December 20X6 onwards. However, such payments will depend upon a number of factors, including amongst others, the earnings, capital commitments, general financial conditions, distributable reserves and other factors to be considered by the Board.

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