

FREQUENTLY-ASKED QUESTIONS (FAQs)

Prospectus Guidelines – Enhanced Financial Disclosure Requirements (1 February 2008)

1. Why is the SC liberalising the profit forecast disclosure requirement?

The liberalisation is to align the SC's regulatory requirements with international practices as most countries require forecasts to be disclosed only on a voluntary basis and in some countries, such as United States, it is even discouraged.

This is also in view of the uncertainties surrounding the underlying assumptions in arriving at financial forecasts.

2. Can investors still make informed investment decisions in the absence of a profit forecast?

While it can be argued that a responsibly prepared profit forecast can provide useful information to investors about the issuer's future financial performance, a forecast that is not based on reasonable grounds can be misleading. The profit forecast may be arrived at based on underlying assumptions of future events which are subjective and unrealistic.

In addition, issuers may have strong incentive to inflate forecast figures in their prospectuses to boost subscriptions.

Therefore, reliance by investors on the Management's Discussion and Analysis (MD&A) of financial and operating performance and prospects should provide investors with sound and better quality information on which to base their investment decisions.

3. What are the enhancements to the MD&A now required in the prospectus?

The SC has now elaborated on the MD&A disclosure requirements to include the following:

- A detailed analysis of the corporation's financial condition, changes in financial condition and results of operations for each year and interim period for which the historical financial information is required, including the causes of material changes

from year to year in financial statement line items, to the extent necessary for an understanding of the corporation's business as a whole; and

- A discussion of factors and trends that are anticipated to have a material effect on the corporation's financial condition and results of operations in future periods, taking into consideration the following:
 - The nature and conditions of the business the corporation is operating in;
 - The risk factors of the corporation and its business operations;
 - The prospects and outlook of the industry in which the corporation is operating in;
 - The prevailing economic situation; and
 - The future plans and strategies of the corporation.

4. What is the rationale for disclosing a statement of capitalisation and indebtedness?

The statement of capitalisation and indebtedness is a snapshot of the proportion of equity and debt used by the corporation to finance its assets. It is intended to enable investors to gauge whether the corporation utilises its sources of funding in an efficient manner.

Such information is currently available in the financial statements disclosed in the prospectus. However, for enhanced readability and disclosure, this information is now proposed to be highlighted in the main body of the prospectus.

5. When will these enhanced disclosure requirements under Chapter 13 of the Prospectus Guidelines become effective? How will these enhanced requirements affect prospectuses currently pending registration with the SC?

The effective date of the enhanced disclosure requirements is 1 February 2008. A grace period of three months up to 30 April 2008 is allowed to enable a smooth transition, during which advisers/issuers are encouraged to adopt the enhanced requirements for the benefit of investors. All registrable prospectuses submitted after 30 April 2008 are, however, required to comply with the enhanced disclosure requirements.