FINANCIAL SITUATION OF PN17 COMPANIES LISTED IN THE MALAYSIAN
STOCK EXCHANGE

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ABSTRACT

A Practice Note 17 (PN17) Company is a listed company in the Malaysian Stock Exchange that is financially distressed or does not have a core business or has failed to meet minimum capital or equity (Less than 25% of the paid up capital). Financial ratio analysis method can be used to detect the failure of this company. As of 9th August 2010, there are still thirty four companies listed on Malaysian Stock Exchange classified under PN17 List. These companies have entered into PN 17 list in accordance with existing standards. There are also investors who do not know the status of these listed companies. A real and full attention has not been given yet for these companies. Analytical studies and scientific researches are almost still lacking on PN17 Companies listed in the Malaysian Stock Exchange. The aims of this research work is to examine the differences between the financial liquidity ratios (Current, Quick, Cash Ratio) and Altman's Z-score in determining the financial failure of companies, that is using financial ratios and Altman Z Score to examine whether there is different between PN17 companies and Non-PN17 listed in the Malaysian Stock Exchange. It also aimed to determine whether are all the PN17 Companies listed in the Malaysian Stock Exchange financial failure companies, to explore and report the financial situation of companies listed on Malaysian Stock Exchange. The available data collected from the library of Malaysian Stock Exchange covering the period from 2003 to 2009 were used in the analysis. This study answered the research questions formulated. Financial Liquidity ratios and Altman Z-score can be used to detect financial distress of companies, and it is important to compare ratios with the industry average or with a competitor in the same sector. Not all the PN17 Companies are financial failure Companies, It was found that there are financial difficulties companies still listed among the Non-PN17 list. Companies should emphasize on the issue of accounting disclosure.

ABSTRAK

Syarikat Nota Amalan 17 (PN17) adalah sebuah syarikat berhad di Bursa Saham Malaysia yang telah mengalami masalah kewangan atau tidak mempunyai perniagaan teras atau telah gagal untuk memenuhi keperluan modal minimum atau ekuiti (kurang daripada 25% daripada modal berbayar). Kaedah analisis nisbah kewangan boleh digunakan untuk mengesan kegagalan syarikat ini. Setakat Ogos 9hb, 2010, masih terdapat tiga-puluh penerbit tersenarai syarikat PN17 pada pasaran Bursa Saham Malaysia. Syarikat-syarikat ini telah dimasukkan ke dalam senarai PN 17 mengikut piawaian yang sedia ada. Terdapat juga pelabur yang tidak tahu status syarikat-syarikat tersenarai. Perhatian yang sebenar dan penuh masih tidak diberi lagi untuk syarikat-syarikat ini. Kajian secara analitikal dan penyelidikan saintifik masih kekurangan pada Syarikat-syarikat PN17 Syarikat yang tersenaraikan di pasaran Bursa Saham Malaysia. Tujuan kerja penyelidikan ini adalah untuk mengkaji samada terdapat perbezaan antara nisbah-nisbah kecairan kewangan (nisbah kewangan semasa, pantas dan tunai) dan Skor Z Altman dalam menentukan kegagalan kewangan sesebuah syarikat, iaitu, menggunakan nisbah kewangan ini dan Skor Z Altman untuk menentukan sama ada terdapat perbezaan status kewangan diantara Syarikat PN17 dan Bukan-PN17 tersenarai di Bursa Saham Malaysia. Ia juga bertujuan untuk menentukan sama ada kesemua Syarikat PN17 yang tersenarai di pasaran Bursa Saham Malaysia adakah Syarikat gagal kewangan, untuk meneroka dan melaporkan keadaan kewangan sesebuah syarikat yang tersenaraikan di Bursa Saham Malaysia. Data-data tersedia ada di perpustakaan Bursa Malaysia telah dikumpulkan dari tempoh 2003-2009 uthuk dianalisiskan. Kajian ini telah menjawab soalan-soalan penyelidikan yang telah digubal. Nisbah kecairan kewangan dan Skor Z Altman boleh digunakan untuk mengesan masalah kewangan syarikat, dan ini adalah penting untuk membandingkan kadar dengan purata industri atau dibandingkan dengan pesaing dalam sektor yang sama. Tidak semua Syarikat PN17 adalah syarikat yang kegagalan kewangan. Dapatan kajian juga menunjukkan bahawa terdapat beberapa Syarikat yang mempunyai masalah kewangan tersenarai diantara Syarikat Bukan-PN17. Syarikat harus memberi penekanan tentang isu pendedahan perakaunan.

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KLSE	-	Kuala Lumpur Stock Exchange
N/A	-	Data Not Available
Delisted	-	Company Delisted from the Stock Exchange
SPSS	-	Statistical Package for Social Sciences
-T1	-	One year Prior to Classification as PN17 Company
-T2	-	Two years Prior to Classification as PN17 Company
-T3	-	Three years Prior to Classification as PN17 Company
+T1	-	The First year after the Classification as PN17 Company
+T2	-	Two years after the Classification as PN17 Company
+T3	-	Three years after the Classification as PN17 Company

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CHAPTER 1

INTRODUCTION

1.0   Introduction

This chapter provides an overview of this research work, problem statement, scope, objective, significance, and its potential contributions. The research questions and organizations of this thesis are also presented while definitions of key terms used in this study are explained.

1.1   Background of the Study

The Malaysian central bank was established in 1959. It plays a key role in the financial sectors in the infrastructure development of Malaysia's economy. Securities Commission in Malaysia was established in 1993 for promoting the development of Malaysian securities' market in accordance to the Malaysian Securities Law 1993 (Sanaa, 2009).

The Malaysian Stock Exchange takes a very strict view of breaches to the Malaysian Stock Exchange Rules and Malaysian Stock Exchange Listing

Requirements; as these breaches have the potential to undermine investor's rights and protection.

Undertake enforcement proceedings and actions in relation to identify contravention of the Malaysian Stock Exchange Rules and Malaysian Stock Exchange Listing Requirements and initiate legal action where necessary, to give effect to the enforcement decisions and actions. It also administers and process claims in respect of the Compensation and Fidelity Funds maintained by Malaysian Stock Exchange. Strict enforcement for contravention of the Malaysian Stock Exchange Rules and Malaysian Stock Exchange Listing Requirements are done through enforcement actions seeking to deter future breaches, educate the market, influence change, and enhance corporate governance.

The Malaysian Stock Exchange Listing Requirements and Malaysian Stock Exchange Rules empower Malaysian Stock Exchange to take enforcement actions for breaches of the Malaysian Stock Exchange Listing Requirements and Malaysian Stock Exchange Rules. The persons who are subject to these enforcement actions are applicants, listed issuers, management companies, trustees, directors, Participating Organizations, Trading Participants, Clearing Participants, Participants of Exchange Trading Platform, Registered Persons, Authorized Depository Agents, Authorized Direct Members and any such person to whom the Malaysian Stock Exchange Listing Requirements and Malaysian Stock Exchange Rules are directed.

Each year, Malaysian Stock Exchange makes enquiries and investigates potential rule breaches and depending on the conduct involved, the facts and circumstances, will trigger a variety of responses for the breaches / non-compliances including referrals of potential and significant contravention of the Capital Markets & Services Act 2007 to Securities Commission. Enforcement actions or sanctions by Malaysian Stock Exchange are merely one of the tools available to Malaysian Stock Exchange to address the breaches of the Malaysian Stock Exchange Listing Requirements and Bursa Malaysia Rules. A listed issuer must, in accordance with these Requirements, disclose to the public all material information necessary for informed investing and take reasonable steps to ensure that all who invest in its securities enjoy equal access to such information, a listed issuer must ensure that no disclosure of material information is made on an individual or selective basis to

analysts, shareholders, journalists or other persons unless such information has previously been fully disclosed and disseminated to the public.

According to the Malaysian Stock Exchange Listing Requirements and Malaysian Stock Exchange Rules, a listed company that is financially distressed or does not have a core business or has failed to meet minimum capital or equity and companies' shareholders' funds are (less than 25% of their total paid-up capital) will be classified as PN17 Company. This Company is required to submit to Malaysian Stock Exchange their plan on how to regularize or face possible delisting. These Companies that triggered any of the criteria pursuant to Practice Note 17 of the Main Market Listing Requirements of Malaysian Stock Exchange are said to be reprimanded. Under these circumstances and in accordance with the Bursa Securities decision, the companies will be removed from the official list of Bursa Securities, after the imposition of suspension, and delisting procedures against the companies if it failed to be regularized (www.klse.com, retrieved on 7th February, 2010).

Malaysia Securities Berhad Market has frequently reprimanded companies for breaching of Listing Requirements of Malaysian Stock Exchange. This has resulted in increasing calls on objectivity and uncovering the risks in the Malaysian financial markets because an early uncovering of weakness in the markets enables an immediate intervention. Consequently these avoid the crises in the financial system (Michael, 2007; Hoon, 2002).

Hasabullah et al., (2009) has provided insight that financial analysis of data using ratio analysis can be used as an early alerting method for financial failure among companies listed in the stock exchange. Financial analysis is a tool that helps management to make decisions and plans and control them. During the last century, a number of events in the international economy greatly affected the performance of countries on the international economic environment, chronic crises of stock markets. The financial markets in Southeast Asia in 1997, has witnessed a major breakdown in both Hong Kong and Indonesia. The crisis erupted in Philippines, Thailand, South Korea and Malaysia, led to the spread of infection in these Asian countries unexpectedly for the failure of companies and the political instability as well. The Malaysian experience was a great example for others in improving their performance in the market (Hoon, 2002).

The use of financial analysis has increased in the recent decades due to the increase in both industrial and commercial projects and the competitiveness among them, establishing standards and criteria of the sectors of such markets to monitor and assist in establishing the decision. Globalization is an era, which is considered as a revolution of information, which has triggered the need to analyze and treat huge numbers of the data (Mohammed, 1997). The advancement is another important factor led to the necessity of providing investors with the many needed financial criteria, such as Technology, Economics, Management and accounting. All these represented an accelerating issue for the giant, limited, and multi-nationality companies to appear (Ali, 2008). A financial statement was shown by Altman and Beaver to be sufficient information for a highly discriminate function for large businesses (Robert, O. 1971).

One of the major purposes of the financial analysis is studying the financial failure. Specifically, the insurance field, where projects need bank loans for limiting and avoiding bankruptcy risks (Edward, I. 1968). Moreover, purposes of the financial analysis it is to predict the processes that produce the financial failure to activate many reasons and factors over long periods of time up to the case of inability to pay obligations and access to new commitments, loss of balance financial and operating cash. The result is that the company is experiencing financial hardship and the inability to pay their existing obligations in a timely manner and indicators, and that is why they suffer from such problems (Hayali, 2004).

There are cases where classical inspection is not able to detect issues and deviations in financial management reporting. However, through the use of financial analysis methods, such deviations can be tracked in greater details. Financial analysis is also used in evaluation works for obtaining concise and realistic financial and accounting reporting. Problem arises pursuant to hiding of important information by those who prepare financial reporting and the lack of commitment by many companies and facilities to disclose the accounting detected are reported for regulating to adhere to laws and rules in line with the recommendations and principles of the International Accounting Standards Committee. Therefore, an important functions of the financial analyst is to show the true picture of the facility by ensuring accounting and financial reports are reflected professionally (Ali, 2008; Hayali, 2004).

Researchers' attention began to focus on analyzing the financial conditions of companies in the sixties in the United States with the encouragement of the American Institute of Certified Public Accountants, and the Securities and Exchange auditor's role in early warning of the incidence of corporate bankruptcy. Beaver was the first researcher to complete a study in this area in 1966. He built a model which is known as complex financial ratios. Later, Researchers from Britain, Canada, and the United States have done similar studies in this field, where Altman is considered the most common model among them (Mohammed, 1997).

The financial ratios serve financial analyst in the evaluation of corporate performance in the areas of profitability, liquidity and solvency, as well as the efficiency of management in the design and implementation of funding policies and investment (Mohammed, 1997).

1.2   Problem Statement

The Star, a local newspaper highlighted among others the negative views expressed on PN17 Companies especially by the auditors on the payment-failure of loans and the main benefits, companies' shareholders' funds are less than 25% of their total paid-up capital (Kok, 2010). There are Companies that were classified under the PN 17 list as early as year 2005 that failed to resolve their financial problems. Among such Companies are also those that were warned for the lack of disclosure of data or to reconsider their regularization plans. Companies' that continued unable to regularize had also led to their delisting from the listing under the Malaysian Stock Exchange (www.klse.com, retrieved on 17th May, 2010). Also as of 9th August 2010, there are still thirty four companies listed on Malaysian Stock Exchange classified under PN17 (Practice Note 17) List and these companies has entered into PN 17 list in accordance with existing standards (www.klse.com, accessed on 11th August, 2010).

Despite the recent strong stock market rally and performance, some investors may still doubt the financial health of some listed companies, and the investors are very concerned about whether to cut losses or hope in the healing of these shares for

stocks they owned that were classified as under the companies PN17 category. Some investors are also unaware that they are those holding shares in companies that have been classified under PN17. In some cases, investors do not know about written off notices of these companies (Kok, 2010).

There are many questions, worries, and comments on PN17 future. However, a real and full attention has not been given yet for these companies. Analytical studies and scientific researchers are almost still lacking on PN17 Malaysian Companies listed in the Malaysian Stock Exchange.

1.3 Research Questions

To provide better insights into the areas that enable to better deal with financial analysis, the following research questions are formulated to guide this study:

(i) Is there a difference between the financial liquidity ratios i.e. Current Ratio, Quick Ratio, Cash Ratio and Altman Z-score 1968 in determining the financial situation of the PN17 Companies listed in Malaysian Stock Exchange?

(ii) Is there a difference in determining the financial situation between PN17 failure Companies and Non PN17 Companies listed in Malaysian Stock Exchange using financial liquidity ratios and Altman Z Score 1968?

(iii) Are all the fifty two PN17 Companies listed in Malaysian Stock Exchange financial failure Companies?

(iv) Is there any financial distress companies that are listed in the non PN17 list of companies listed in the Malaysian Stock Exchange listing facing financial failure?

1.4   Objectives of the Research

To achieve the purpose of this study, the main research objectives are:

(i)   To examine the differences between the financial liquidity ratios, (Current, Quick, Cash Ratio), and Altman's Z score 1968 in determining the financial situation of PN17 companies.

(ii)   Using financial liquidity ratios and Altman Z-score 1968 to determine whether there is difference in the financial situation between PN17 and Non-PN17 companies.

(iii)   To determine whether all the PN17 Companies listed in Malaysian Stock Exchange are financial failure Companies.

(iv)   To determine the situation of financial performance of companies that are listed in the Non-PN17 list of companies listed on Malaysian Stock Exchange.

1.5   Scope of Study

The scope of this study is as follows:

(i)   This study is based on data of all the fifty two PN17 Companies, and other fifty-two non-PN17 Companies which were selected from different sectors listed on Malaysian Stock Exchange.

(ii)   Financial Analysis Ratios including Cash Ratio, Current Ratio, and Quick Ratio, based on comparing to the industry average, and Altman Z Score 1968 were used to determine and explore the situation of financial performance of the Companies studied.

(iii) The PN17 Companies data used in the analysis works were based on the financial information of the respective companies, 3 years prior to classify as PN17 list and 3 years thereafter, data collected from 2003 until 2009. For the Non-PN17 Companies the analysis works of the financial results were based on the last five years financial results of these Companies, from 2005 until 2009.

1.6 Significance of the Study

The importance of the study can be summarized as following: -

(i) This study will contribute to bridge the lack of studies which explore the financial accounting in Malaysian context.

(ii) This study attempts to provide a new horizon for further research on financial accounting.

(iii) This study is among other studies using Altman's model 1968 and financial ratios to determine financial hardship of Companies. It's also among other studies especially on the PN17 Companies listed on the Malaysian Stock Exchange.

(iv) This study will be able to further provide insight on financial situation of PN17 Companies' position to strengthen the confidence of shareholder and investor in making better informed investment decision.

1.7 Research Organization

This thesis comprises of five chapters as follows:

Chapter one provides an overview of this research work, problem statement, scope, objective, significance, and its potential contributions. The research questions

and organization of this thesis, definitions of key terms used in this study are explained.

Chapter two provides the Literature Review of existing literature related to this study. The review undertaken is to provide an overview of the gaps of literature of this study and how this current work will contribute to the research.

In Chapter three, the methodology used in this study is explained. The topics covers include research design and, sampling design, research hypotheses, measurements, descriptive statistics and the method of data analysis.

Chapter four features on data analysis and findings, data collection and data analysis, results are presented.

Finally in Chapter five, it covers the discussion, conclusion and recommendations of this research works.

1.8 Definitions

The main terms used in this study are defined below:

Bursa Malaysia Securities Berhad Market: is the Malaysian Stock Exchange regulated and supervised by the Malaysian Securities Commission under the Malaysia Securities Act 1993.

PN17 Company: Company that triggered any of the criteria pursuant to Practice Note 17 of the Main Market Listing Requirements of Malaysian Stock Exchange are said to be reprimanded under the PN17 list as financial distress companies.

Non-PN17 Company: Companies traded normally in the official Bursa Malaysia Securities Berhad or the Malaysian stock exchange market.

Business Failure: means the company ceased operations following its inability to make a profit or to bring in enough revenue to cover its expenses.

Insolvency: means the inability of a company to pay off its debts, or pay debts as they fall due.

Industrial Average: is a value-weighted average of ratios of companies traded on the Malaysian Stock Exchange.

A ratio: is a figure or percentage representing the comparison (Robert, 1971).

Liquidity: is financial metrics that is used to determine a company's ability to pay off its short-terms debts obligations, or measures that help to ascertain a firm's ability to pay operating expenses.

Current Ratio: is a financial liquidity indicator that measures whether or not a firm has enough resources to pay its debts over the next 12 months, and it compares a firm's current assets to its current liabilities.

Quick Ratio: is a financial liquidity indicator that further refines the current ratio by measuring the amount of the most liquid current assets there are to cover current liabilities, and a sign of company's financial strength or weakness.

Cash Ratio: is an indicator of a company's liquidity that refines both the current ratio and the quick ratio by measuring the amount of cash, cash equivalents or invested funds there are in current assets to cover current liabilities.

Altman Z-score: is a linear combination of five common business ratios, the coefficients were estimated by identifying a set of firms which had declared bankruptcy and then collecting a sample of firms which had survived, with matching by industry (Wikipedia, the free encyclopedia).

1.9   Summary

This Chapter has provided an overview of this research work, problem statement, scope, objective, significance, and its potential contributions. The research questions and organization of this thesis, definitions of key terms used in this study are explained.

There is still lack of research works which uses financial ratios, that is current, quick and cash ratios and Altman's Z score to investigate companies listed in the Bursa Malaysia Securities Berhad Market and this is especially so for the PN 17 Companies. All the PN 17 Companies and selected other Companies listed in this Securities are used in the current research work.

CHAPTER 2

LITERATURE REVIEW

2.0   Introduction

This Chapter is on literature review. It provides the background knowledge on the research work undertaken. Emphasis in this section is on the PN17 Companies of Malaysian Stock Exchange market and the criteria in classifying these companies under PN17. It also covers a review of studies on the analysis of the financial conditions of companies from various financial markets and how financial failures are predicted.

Thus, the above set the main theme of the review and evaluation of existing literature related to this study.

2.1   PN17 Companies

These are companies listed on Malaysian Stock Exchange that are classified under PN17 (Practice Note 17) and are generally financially-troubled companies. The Malaysian Stock Exchange classified listed companies with financial problem under two categories; namely PN4 and PN17. PN means Practice Note. Basically, PN17 stands for Practice Note 17/2005 and is issued by Malaysian Stock Exchange and it relates to companies that are in financial distress. Companies that fall within the definition of PN17 will need to submit their proposal to the Approving Authority to restructure and revive their company in order to maintain the listing status in Malaysian Stock Exchange. There are many reasons for the changes in status of listing of Company in Malaysian Stock Exchange. It may be due to change in management, risk profile, management team's experience, foresight, financial appetite, over-gearing etc.

Main board counters on Malaysian Stock Exchange have been associated with high quality stocks and a wide range of investment opportunities for investors. However, it will not be the case for the company to be classified as Practice Note 17 (PN17) Company. Retail investors are skeptical to invest in a PN17 company. These companies normally have some financial difficulties. As such, investors are quite worried when some of the shares they hold are for PN17 companies. They usually face a dilemma of whether to cut losses or hope for a rebound when holding such shares.

The reasons for companies to be classified under PN17 include: companies' shareholders' funds should be more than 25% of their total paid-up capital; receivers have been appointed to take control of the companies' assets; the winding-up of some of their subsidiaries and associated companies; the auditors have expressed adverse opinions on the companies; default in loan interest and principal repayments; the companies have suspended or ceased their operations; and companies do not have any significant businesses or operations.

Many investors wonder why some companies turn into PN17. If it is scrutinized carefully, it seems that these companies are usually poorly managed or do not have good

track records. Among the reasons why investors continue to hold on to these PN17 companies include not keeping a proper track of the companies' financial performance; investors are not aware that they are holding on to stocks of companies that have been classified under PN17. In some cases, the investors do not even notice that these companies have been delisted (Kok, 2010).

As at 9th August 2010, Malaysian Stock Exchange reported that there were17 companies delisted from the Malaysian Stock Exchange, and one company that was successfully regulated came out of PN17 list. This company is Talam Corporation Berhad. In normal circumstances, the Malaysian Stock Exchange, will impose suspension first prior to commencing of de-listing procedures against the company to remove it from the official list of Malaysian Stock Exchange (www.klse.com, retrieved on 21th October, 2010).

As at 2ndJuly 2007, there are a total of 33 Amended PN17 companies, which represents 3.26% of Malaysian Stock Exchange. The status of PN17 companies as at 16th December 2008 is 33 companies and this represents 3.38% of the total number of 977 companies listed on Malaysian Stock Exchange. At 31st December 2009, the total number of PN17 companies is 30 and this represents 3.13% out of a total number of 960 companies listed on Malaysian Stock Exchange. The situation remains critical, and as at 13th July 2010 there are a total of 34 companies (www.bursamalaysia.com). As at 5th July 2011, Malaysian Stock Exchange ("Bursa Securities") announced that a Practice Note No. 17 company, GOPENG BERHAD ("GOPENG") has been uplifted from being classified as a PN17 Company. As usual, Bursa Securities mentioned that it would like to emphasize that it will continue to monitor the progress of PN17 Companies in respect of their compliance with the Listing Requirements. With the uplifting of GOPENG from its PN17 status, there are a total of 28 companies under Practice Note 17 Companies (including companies that triggered any of the criteria pursuant to Practice Note 17 and Amended Practice Note 17 of the Listing Requirements of Malaysian Stock Exchange, which came into effect on 3 January 2005 and 5 May 2006) and this represents 2.94% of the total number of 954 companies listed on Malaysian Stock Exchange. The list of

companies under PN17 Companies as at this date respectively is tabled in Table: 2.1 as follows:

Table 2.1: List of PN17 Companies updated as at 9th August, 2010

No	Company Name	Code	Date of listing	Date of de-listing
1	ARK RESOURCES BHD	7007	29/07/1997	2009
2	AKN TECHNOLOGY BERHAD	7068	2/09/1998	2007
3	AXIS INCORPORATED BERHAD	7447	6/09/1996	2009
4	BASWELL RESOURCES BERHAD	7156	30/01/2003	2010
5	EVERMASTER GROUP BERHAD	7552	8/01/1997	2009
6	FOUNTAIN VIEW DEVELOPMENT BERHAD	6335	31/07/1996	2009
7	HAISAN RESOURCES BERHAD	7110	16/01/2001	2010
8	HO HUP CONSTRUCTION BERHAD	5169	11/09/1991	2006
9	HOCK SIN LEONG GROUP BERHAD	5046	2/05/2002	2010
10	GULA PERAK BHD	3263	3/05/1971	2010
11	IBRACO BERHAD	5084	16/06/2004	2010
12	JPK HOLDINGS BERHAD	7092	26/05/2000	2009
12	KENMARK INDUSTRIAL CO. (M) BERHAD	7030	3/11/1997	2010
14	LCL CORPORATION BHD	7177	8/01/2004	2009
15	LIMAHSOON BERHAD	7194	22/07/2004	2009
16	LINEAR CORPORATION BERHAD	9504	18/11/1994	2010
17	LUSTER INDUSTRIES BHD	5068	11/09/2003	2006
18	MALAYSIAN MERCHANT MARINE BERHAD	7040	8/12/1997	2010
19	NAM FATT CORPORATION BERHAD	4901	28/11/1990	2010
20	NGIU KEE CORPORATION (M) BERHAD	7927	9/06/1997	2010
21	OCI BERHAD	7049	16/01/1998	2007
22	OILCORP BERHAD	3697	20/01/1988	2009
23	RAMUNIA HOLDINGS BERHAD	7206	28/01/2005	2010
24	RHYTHM CONSOLIDATED BERHAD	7032	11/02/1998	2009

Table 2.1 (continued)

25	SATANG HOLDINGS BERHAD	7212	16/03/2005	2007
26	SELOGA HOLDINGS BERHAD	7641	10/12/1996	2007
27	STAMFORD COLLEGE BERHAD	9563	30/11/1994	2009
28	SYARIKAT KAYU WANGI BERHAD	8699	30/05/1993	2008
29	THE AYER MOLEK RUBBER COMPANYBERHAD	2313	23/03/1961	2009
30	TRACOMA HOLDINGS BERHAD	7147	24/07/2002	2010
31	TRANSMILE GROUP BERHAD	7000	27/06/1997	2010
32	TRIPLC BHD	5622	18/08/1993	2008
33	VTI VINTAGE BERHAD	7595	22/11/1996	2010
34	WWE HOLDINGS BERHAD	7039	12/01/1998	2007

List the companies that were unable to regularize under the Malaysian Stock Exchange listing requirements, were subsequently delisted from the Malaysian Stock Exchange and classified under PN17 Companies until this update.

Whereas there is another company under the name of Talam Berhad which was listed under PN17 in 2006, restructures and revived itself to maintain the listing status in Malaysian Stock Exchange. This company was successfully re-listed in 2010.

Table 2.2: Companies Classified as PN17 that were subsequently delisted from the Malaysian Stock Exchange

No	Company Name	Code	Date of listing	Date of de-listing
1	APL INDUSTRIES BERHAD	5479	8/09/1992	2006
2	BSA INTERNATIONAL BERHAD	7135	30/05/2002	2006
3	CNLT (FAR EAST) BERHAD	7041	17/12/1997	2008
4	GOLD BRIDGE ENGINEERIG & CONSTRUCTION BERHAD	7404	23/07/1996	2006
5	HARVEST COURT INDUSTRIES BHD	9342	19/10/1994	2006
6	IDAMAN UNGGUL BERHAD	1112	21/12/1974	2006
7	KIMBLE CORPORATION BERHAD	7151	8/08/2002	2006

Table 2.2 (continued)

8	KOSMO TECHNOLOGY INDUSTRIAL BERHAD	9636	27/01/1995	2007
9	LIQUA HEALTH CORPORATION BERHAD	2534	27/07/1961	2006
10	ENGLOTECHS HOLDING BHD	7166	7/08/2003	2007
11	PILECON ENGINEERING BHD	4073	27/12/1984	2006
12	POLY TOWER VENTURES BERHAD	7175	17/12/2003	2006
13	PRIME UTILITIES BERHAD	5452	19/11/1992	2006
14	MECHMAR CORPORATION (MALAYSIA)	3808	17/01/1986	2006
15	NIKKO ELECTRONICS BHD	5017	12/01/2000	2007
16	TENGGARA OIL BERHAD	8257	28/10/1991	2007
17	WONDERFUL WIRE & CABLE BHD	7587	28/11/1996	2006

Note: *The above companies were classified under PN17 due to either one of the following criteria:

(a) Companies that triggered any of the criteria pursuant to Practice Note 17/2005 of the Listing Requirements of Malaysian Stock Exchange which came into effect on the 3rd January, 2005.

(b) Companies that triggered any of the criteria pursuant to Amended Practice Note 17/2005 of the Listing Requirements of Malaysian Stock Exchange which came into effect on the 5th May, 2006 or

(c) Companies that triggered any of the criteria pursuant to Practice Note 17 of the Main Market Listing Requirements of Malaysian Stock Exchange which came into effect on the 3rd August, 2009. (www.klse.com).

Thus, it also reveals among others, the market surveillance's function of the Malaysian Stock Exchange to ensure that the market operates in a fair and orderly manner so as to promote efficient price discovery and investor's protection, for more details refer to appendix A. Criteria and Obligations of PN17 Companies (www.bursamalaysia.com, as at 3rd August, 2009).

2.1.1   Criteria of PN17 Companies

The criteria according to the Malaysian Securities Commission for a listed company to be classified as a PN17 Company are as follows:-

(a) The shareholders equity of the listed issuer on a consolidated basis is 25% or less of the issued and paid-up capital (excluding treasury shares) of the listed issuer and such shareholders equity is less than RM40 million.

(b) Receivers or managers have been appointed over the asset of the listed issuer, its subsidiary or associated company which asset accounts for at least 50% of the total assets employed of the listed issuer on a consolidated basis.

(c) A winding up of a listed issuer's subsidiary or associated company which accounts for at least 50% of the total assets employed by the listed issuer on a consolidated basis.

(d) The auditors have expressed an adverse or disclaimer opinion in the listed issuer's latest audited financial statements.

(e) The auditors have expressed a modified opinion with emphasis on the listed issuer's ongoing concern in the listed issuer's latest audited financial statements and the shareholders' equity of the listed issuer's on a consolidated basis is 50% or less of the issued and paid-up capital (excluding treasury shares) of the listed issuer.

(f) A default in payment by a listed issuer, its major subsidiary or major associated company.

(g) The listed issuer has been suspended or ceased:

    (i)   All of its business or its major business.
    (ii)   Its entire or major operations.

For any reasons whatsoever including, amongst others, due to or as a result of-

    (i)   The cancellation, loss or non-renewal of a license, concession or such other rights necessary to conduct its business activities.
    (ii)   The disposal of the listed issuer's business or major businesses.

(iii) A court order or judgment obtained against the listed issuer prohibiting the listed issuer from conducting its major operations on grounds of infringement of copyright of products.

(h) The listed issuer has an insignificant business or operations.

2.1.2 Obligations of PN17 Company

The obligations of PN17 Companies are as follows:-

2.1.2.1 Regularization plan

Pursuant to paragraph 8.04(3) of the Listing Requirements, a PN17 Company must regularize its condition by undertaking regularization plan. In this regard, a PN17 Company and its Principal Adviser must ensure that the regularization plan –

(a) is sufficiently comprehensive and capable of resolving all problems, financial or otherwise that had caused the PN17 Company to trigger the Prescribed Criteria

(b) Enables the PN17 Company to regularize its financial condition and level of operations, such that the PN17 Company no longer triggers any of the Prescribed Criteria

(c) is fair and reasonable to the PN17 Company and its shareholders and will increase shareholder value.

2.1.2.2   Disclosure obligations of PN17 Company

Pursuant to paragraph 8.04(3) (b) of the Listing Requirements, a PN17 Company must announce to the Exchange:-

(a)   On an immediate basis ("First Announcement") upon the PN17 Company triggering one or more of the Prescribed Criteria:-

(i)   That the listed issuer is a PN17 Company pursuant to this Practice Note;

(ii)   The listed issuer's obligations pursuant to this Practice Note;

(iii) The consequences of non- compliance with such obligations;

(iv) The status of the listed issuer's regularization plan or the status of its endeavors to formulate such a plan, whichever is applicable, or where neither a plan nor any Endeavour to formulate such a plan has been undertaken, an appropriate negative statement to such effect.

(b)   Within 3 months from the First Announcement, on whether the regularization plan will result in a significant change in the business direction or policy of the PN17 Company

(c) The status of its regularization plan and the number of months to the end of the relevant timeframes referred to in paragraph 2.1.2.3a or 2.1.2.3b below, as may be applicable, on a monthly basis ("Monthly Announcement") until further notice from the Exchange,

(d) Its compliance or non-compliance with a pursuant to this Practice Note, on an immediate basis,

(e)   Details of the regularization plan which announcement must fulfill the requirements set out as "Requisite Announcement".   This requisite announcement is as in 2.1.2.2.a

(f)   Where the PN17 Company fails to regularize its condition, the dates of suspension and de-listing by the Exchange.

2.1.2.2.a   The Requisite Announcement must:-

(a) Contain details of the regularization plan and sufficient information to demonstrate that the PN17 Company is able to comply with all the requirements set out under the regularization plan mentioned above after implementation of the regularization plan,

(b) Include a timeline for the complete implementation of the regularization plan,

(c) Be announced by the PN17 Company's Principal Adviser.

2.1.2.2.b Before a PN17 Company makes the Requisite Announcement, it must ensure that:-

(a) All agreements to be entered into with third parties as part of the regularization plan, have been duly executed by all parties to such agreements,

(b) Where the regularization plan involves a compromise or arrangement with the PN17 Company's creditors, the PN17 Company has taken reasonable steps to procure the agreement-in-principle of such creditors.

2.1.2.2.c The monthly Announcements must be made on the first market day of each month beginning with the month following the date of the First Announcement.

2.1.2.3   Obligation to Regularize

2.1.2.3.a If a PN17 Company undertakes a regularization plan which will result in a significant change in the business direction or policy of the PN17 Company, it must-

(a) Submit the plan to the SC for approval, within 12 months from the date of the First Announcement,

(b) Complete the implementation of the plan within such timeframe as may be prescribed by the SC.

2.1.2.3.b If a PN17 Company undertakes a regularization plan which will not result in a significant change in the business direction or policy of PN17 Company, it must –

(a) Submit to the Exchange the plan and obtain the Exchange's approval to implement the plan within 12 months from the date of the First Announcement,

(b) Complete the implementation of the plan within 6 months from the date the plan is approved by the Exchange. However, for cases which involve court proceedings, a PN17 Company has up to 12 months from the date the plan is approved by the Exchange, to complete the implementation of the plan,

(c) Record a net profit in 2 consecutive quarterly results immediately after the completion of the implementation of the plan. In this regard, the PN17 Company must ensure that the relevant quarterly results are subjected to a limited review by an external auditor before they are announced to the Exchange A PN17 Company will need to be regulated to the Bursa Malaysia Listing Requirements. It undertakes a regularization plan to ensure that it complies with to:

(i) Is sufficiently comprehensive and capable of resolving all problems, financial or otherwise that had caused the PN17 Company to trigger the Prescribed Criteria.

(ii) Enables the PN17 Company to regularize its financial condition and level of operations, such that the PN17 Company no longer triggers any of the Prescribed Criteria.

(iii) Is fair and reasonable to the PN17 Company and its shareholders and will increase the shareholder's value.

For more details please refer to appendix A, about Criteria and Obligations of PN17 Companies.

2.2   Financial Analysis Methods

Financial failure prediction models have been studied for over 70 years. Primarily the research has consisted of statistical models prepared through empirical analysis and has attempted to explain the results through mathematical models. Jones (1987), however, stated that the lack of a foundational theory does not necessarily seriously impede financial failure prediction research. Scott (1981) stated that he found a significant amount of overlap between the empirical predictions and theoretical models and suggested that failure prediction is both explainable theoretically and feasible

empirically. Although many approaches to financial failure prediction will be presented in this study, the dominating theory is based on the use of financial ratios. There are studies focused on how to use all the financial indicators of financial ratios as statistical models, where some of these studies also were showing an attempt to use the tools and techniques of modern methods of financial analysis.

Table 2.3: Summary of literature review of works by previous researchers using methods of financial analysis

No	Researcher Name	The university or place of publishing	Title of research	Methods	Results
1	(Mahmood, and Talal, 2009)	Faculty of Economics and Administrative Sciences Zarqa Private University	Use of indicators of financial ratios in the evaluation of financial performance and prediction of financial crises for companies	Profitability ratios - return on investment / margin / turnover of capital, management performance ratios - debt policy / goods / Administration / combination of assets - property, rates the ability to repay debt - short term / long term / Cash Flow. Used two Statistical models, Altman model, and Taffler model.	The study points to the importance of using financial ratios in financial analysis and its role and its importance in performance evaluation of companies and also in calculating the financial failure of companies through the practical application of a number of companies to use graphs to display the results, as well as, in order to avoid failure and face global financial crisis. The researchers found significant results, including convergence of results between the value of the financial performance of companies and the value of financial failure of companies, and the possibility of the use and presentation of results in the financial markets so as to take advantage of them
2	(David, 2000)	United States Department of Financial Management Rural Business–Cooperative Service	Financial Ratio Analysis	Current Ratio, Quick Acid test Ratio, Net Profit Margin, Return on Investment, Return to Total Assets, Debt to Equity ratio, Receivable Turnover, Average Collection Period, Inventory Turnover, Inventory Collection Period	The ratios give two ways of making meaningful comparisons of a firm's financial data: (1) can examine the ratios across time (say, for the last five years) to identify any trends; and (2) can compare the firm's ratios with those of the other firms. In making a comparison of a firm with other companies, a peer group of companies can be selected, or more typically, could use industry norms published by organizations within the industry. Financial ratios are useful indicators of a firm's performance and financial situation. Most ratios can be calculated from information provided by the financial statements. Financial ratios can be used to analyze trends and to compare the firm's financial status to

Table 2.3 (continued)

					those of other firms. In some cases, ratio analysis can predict future bankruptcy. Financial ratios can be classified according to the information they provide.
3	(Marin, 2009)	The Bucharest Academy of Economic Studies, Romania, e-mail: marinandreica@yahoo.com	Using financial ratios to identify Romanian distressed companies	Profit Margin, Return on Assets, Return on Equity, Profit per employee, Operating Revenue per employee, Current ratio, Debts on Equity, Debts on Total Assets, Working capital per employee, Total Assets per employee, Growth rate on net profit, Growth rate on total assets, Turnover growth, Company size.	This study focused on identifying a group of Romanian listed companies using the financial data of the year 2008. For each company, a set of 14 financial indicators was calculated and then used in a principal component analysis, followed by a cluster analysis. The analysis was made for a sample of 55 listed Romanian companies. In order to identify the "healthy" and "unhealthy" listed Romanian companies for the year 2008, applied several models and methodologies, such as the principal components' analysis. All models classified the listed companies as quite good and provided relevant information of the financial ratios that better predict financial distress. Indicated the following variables: the Profit Margin, ROA, ROE, Profit per employee, Current Ratio, Debts on Equity and Growth rate on Total Assets, model indicated Profit Margin, ROA and Turnover growth, Profit Margin and Debts on Equity.
4	(Ahmed, 2006)	School of Business University of Ain Shams	Practical Examples to read and analyze financial statements	Gross Profit Margin, Net Profit Margin, Return On Equity, Return On Assets, Inventory turnover, Receivables Turnover, Total Assets Turnover, Current Ratio, Quick Ratio, Debt Ratio, and Debt to Equity Ratio, Dividend Yield, Dividends Payout Ratio, Price Earnings Ratio, and Book Value Per Share.	This article includes examples explaining how to analyze the financial statements and how come up with the numbers needed to calculate the financial ratios and evaluate the company's performance and present tables of how to select financial ratios for comparison between the measurements, which are chosen as the best way to analyze and predict the current financial situation of companies. The study was limited to one company and the data for the year 2005 was analysed, and after the analysis compared with another rival company of the same sector and period, results show that the best ratios in the list of analysis are Gross Profit Margin, Net Profit Margin, Return On Equity, Return On Assets, Inventory turnover, Total Assets Turnover Current Ratio, Quick Ratio, Debt Ratio, Debt to Equity Ratio, Dividend Yield, Dividends Payout Ratio, Price

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