



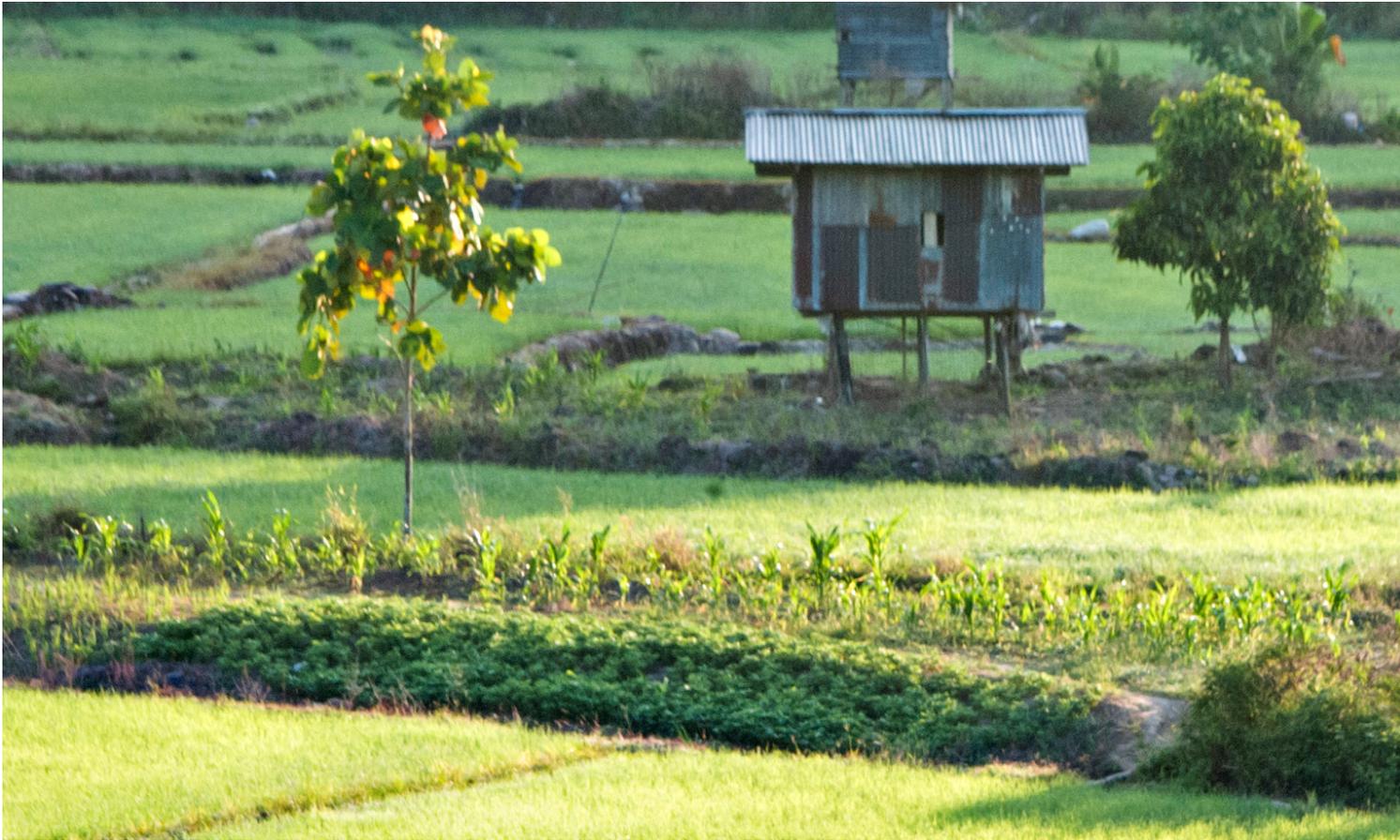
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Universal Service Provision



STATUTORY Requirements

In accordance with Regulation 36 of the Communications and Multimedia (Universal Service Provision) Regulations 2002 (“USP Regulations”), the Malaysian Communications and Multimedia Commission (“MCMC”) hereby publishes and has conveyed to the Minister of Communications and Digital a copy of this report with financial statements for the year ended 31 December 2022.



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CHAIRMAN'S MESSAGE





01



As Malaysia forges ahead towards digitalisation, MCMC continues to ensure the availability of good quality connectivity nationwide to support the digital needs of the country.



CHAIRMAN'S Message



In this regard, the year 2022 saw the continued deployment of various Universal Service Provision (“USP”) funded initiatives to improve broadband coverage and quality which form an integral part of the *Pelan Jalinan Digital Negara* (“JENDELA”).

One notable milestone achieved in 2022 was the successful deployment of 28 new Pusat Ekonomi Digital (“PEDI”), bringing the total number of PEDI throughout the country to 911. These centres provide collective internet access for local communities and facilitate the availability of various Information and Communications Technology (“ICT”) and digital entrepreneurship training programmes for local communities. Through these efforts, more people, particularly those living in rural areas, would be able to leverage on opportunities afforded by the digital economy.

The Broadband Wireless Access (“BWA”) via Satellite initiative was undertaken by MCMC to provide broadband connectivity through WiFi services in remote areas in Sabah and Sarawak, as well as in Orang Asli settlements in Peninsular Malaysia. The initiative started in 2021, and by 2022, a total of 839 BWA sites were successfully deployed. This endeavour has allowed communities living in remote areas have access to the Internet sooner, notwithstanding the rather challenging geographical terrain and remoteness of these locations.

In addition to this, as part of MCMC’s emphasis on expanding coverage and improving the quality of digital connectivity, 160 new communications towers were constructed in 2022, and 1,886 base stations at existing towers were upgraded, resulting in the expansion of 4G coverage nationwide. Additionally, 103 towers and 62,813 premises have been fiberised, while network migration from copper to fibre optic involving 185,352 subscribers were completed for provision of faster and more reliable services. A 30-kilometres-long submarine cable was also successfully deployed, connecting Pulau Redang to Marang in Terengganu and enhancing bandwidth capacity for improved services within the island.

MCMC remains resolute in its goal to further improve and expand digital connectivity throughout Malaysia, particularly in remote and rural areas, to ensure that no Malaysian is left behind as the country transitions to a digital-driven economy and to support the digital aspirations of the country.



**YBhg. Tan Sri Mohamad
Salim Fateh Din**

Chairman
Malaysian Communications and
Multimedia Commission

CHAIRMAN
MALAYSIAN
COMMUNICATIONS
AND MULTIMEDIA
COMMISSION

OVERVIEW

02

Ongoing
USP Initiatives

PG 7

Completed
USP Initiatives

PG 9



ONGOING USP Initiatives



PUSAT EKONOMI DIGITAL ("PEDI")

2007 Year Started

28 *PEDI*
Completed in 2022

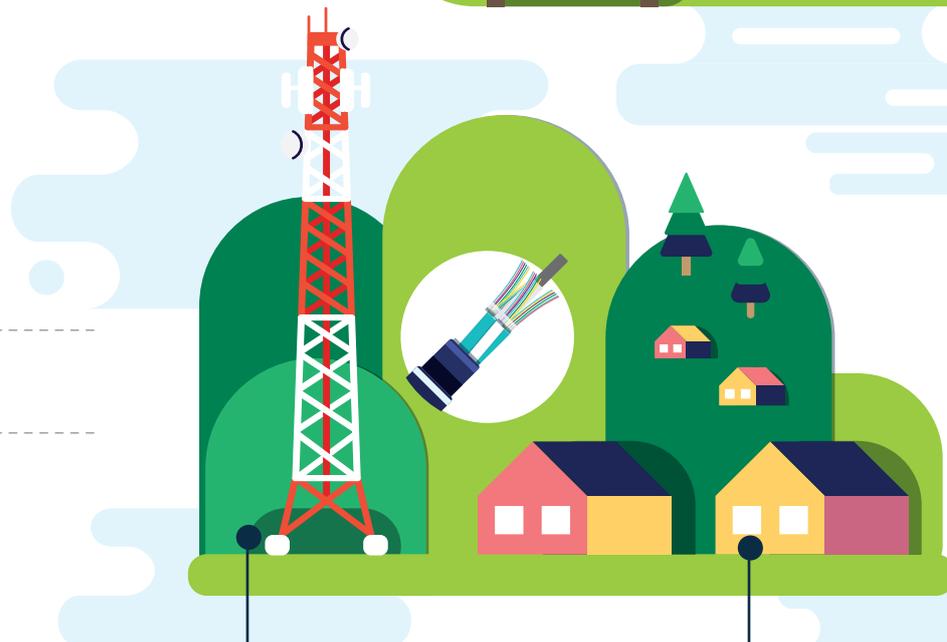
911 *PEDI*
In Total

BROADBAND WIRELESS ACCESS ("BWA") VIA SATELLITE CONNECTIVITY

2021 Year Started

402 *sites*
Completed in 2022

839 *sites*
In Total



FIBERISATION OF TOWERS

2021 Year Started

103 *towers*
Completed in 2022

FIBERISATION OF PREMISES

2021 Year Started

62,813 *premises passed*
Completed in 2022

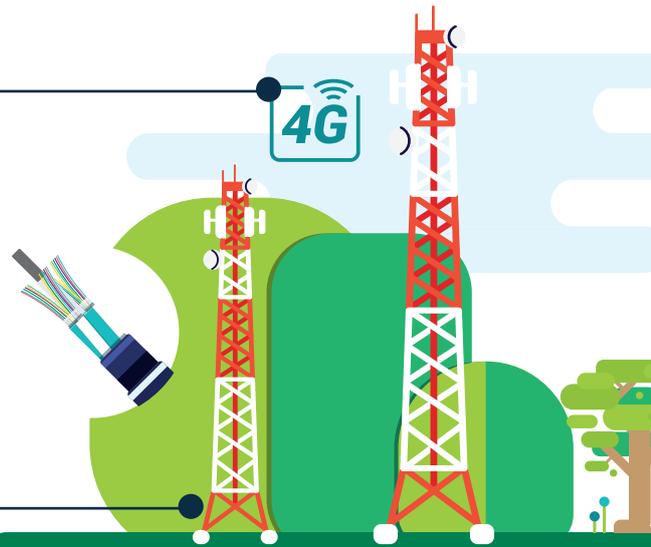
72,783 *premises passed*
In Total

UPGRADING OF BASE STATIONS

2014 Year Started

1,886 base stations Completed in 2022

10,693 base stations In Total



NEW COMMUNICATIONS TOWERS

2009 Year Started

160 towers Completed in 2022

2,748 towers In Total

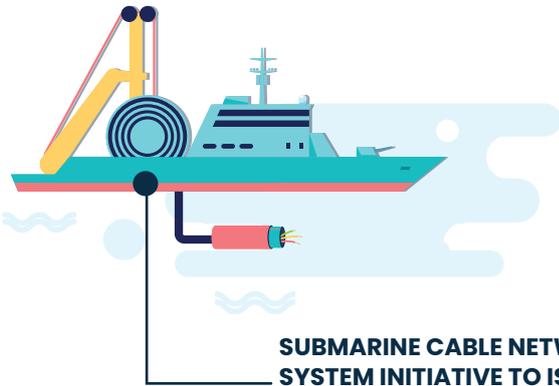


FIBRE OPTIC BROADBAND ACCESS NETWORK MIGRATION

2020 Year Started

185,352 subscribers Completed in 2022

377,360 subscribers In Total



SUBMARINE CABLE NETWORK SYSTEM INITIATIVE TO ISLANDS (PULAU KETAM & PULAU REDANG)

2021 Year Started

30 km Completed in 2022

COMPLETED USP Initiatives



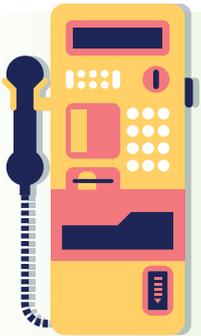
SMART DEVICES WITH INTERNET PACKAGES

2014-2020
Implementation Period
2,512,342 units



NETBOOK

2010-2015
Implementation Period
1,668,772 units



PAYPHONE

2002-2018
Implementation Period
1,252 units

FIBERISATION

2014-2020
Implementation Period
2,473.06 km

RURAL BROADBAND ("RBB")

2015-2020
Implementation Period
146,280 ports



FIXED BROADBAND ("FBB")

2018-2021
Implementation Period
17,728 ports

SUBURBAN BROADBAND ("SUBB")

2015-2020
Implementation Period
493,164 ports



SUBMARINE CABLE SYSTEM TO ISLANDS (PULAU PERHENTIAN, PULAU TIOMAN & PULAU PANGKOR)

2017-2018

Implementation Period

99 km

SUBMARINE CABLE SYSTEM TO SABAH AND SARAWAK

2015-2017

Implementation Period

3,819 km

MINI COMMUNITY BROADBAND CENTRES

2010-2015

Implementation Period

120 centres



COMMUNITY WIFI

2011-2018

Implementation Period

743 sites

COMMUNITY BROADBAND LIBRARIES

2007-2016

Implementation Period

44 libraries



USP

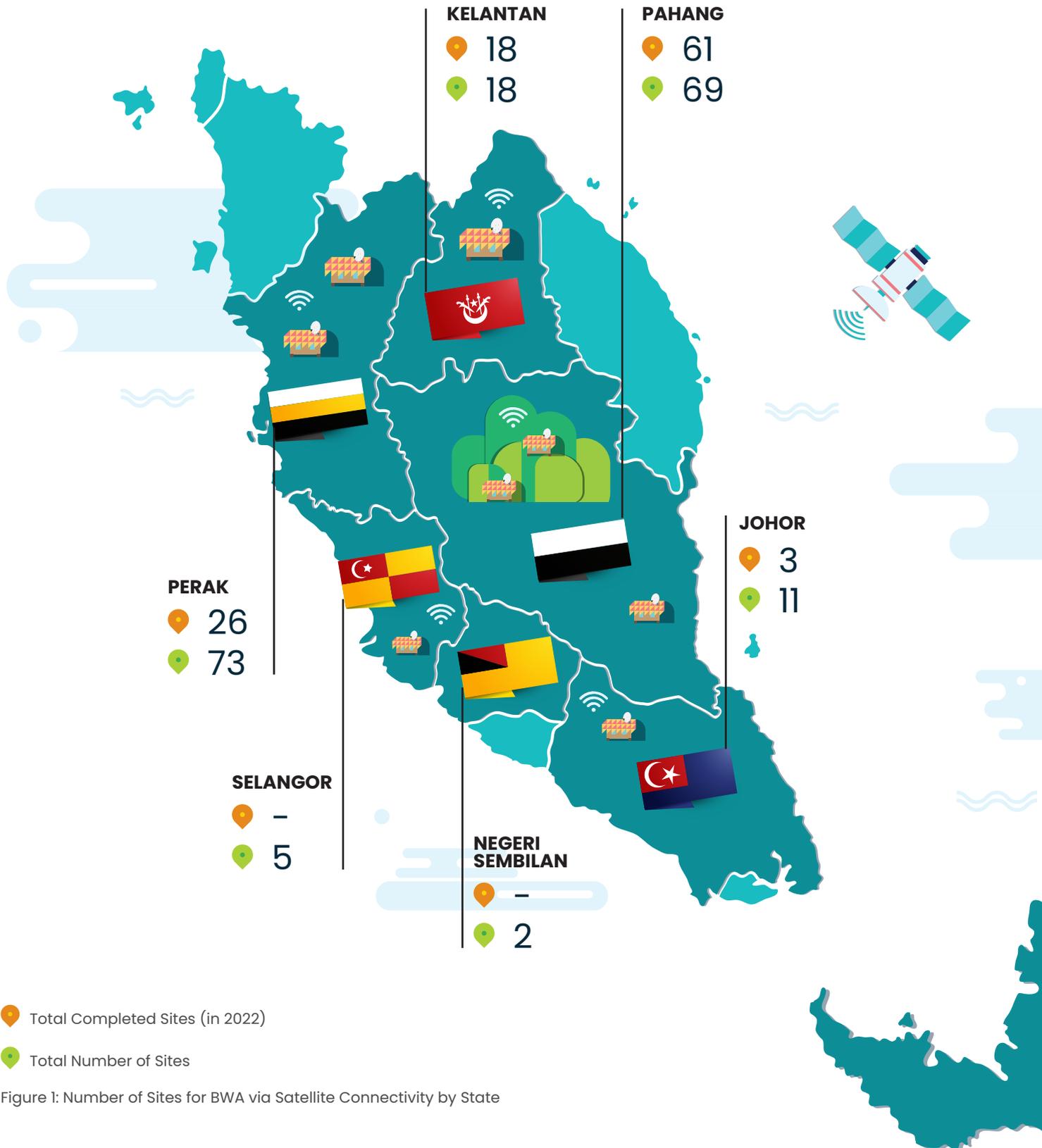
INITIATIVES





03

BROADBAND WIRELESS ACCESS (“BWA”) via Satellite Connectivity



📍 Total Completed Sites (in 2022)
📍 Total Number of Sites

Figure 1: Number of Sites for BWA via Satellite Connectivity by State

TOTAL

402

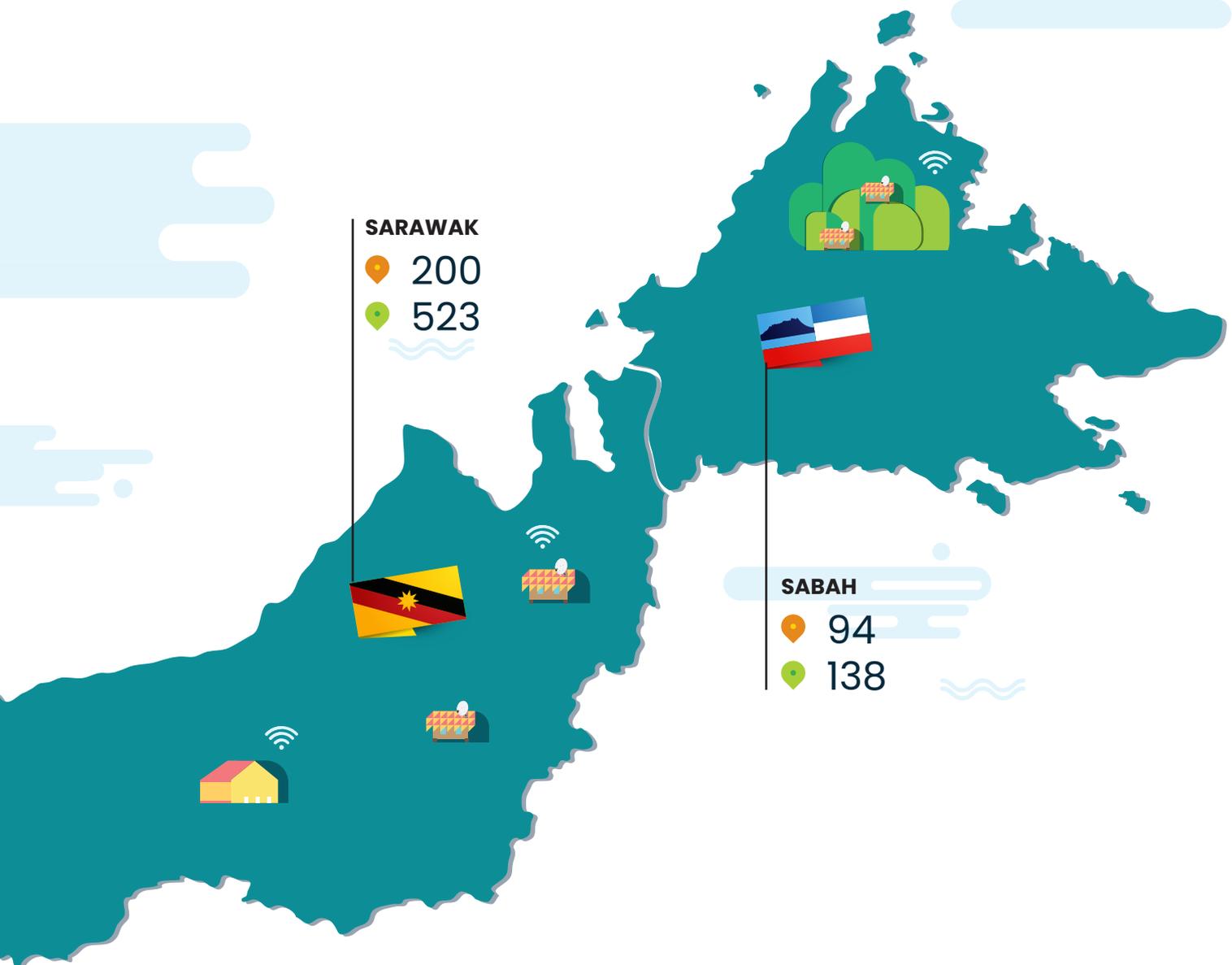
Total Completed Sites (in 2022)

839

Total Number of Sites

In 2022, all 839 sites for Broadband Wireless Access (“BWA”) via Satellite Connectivity in Orang Asli settlements in Peninsular Malaysia and the remote areas in Sabah and Sarawak were completed. This project is one of the initiatives under the Jalinan Digital Negara (“JENDELA”) plan with the objective of providing internet connectivity in these areas.

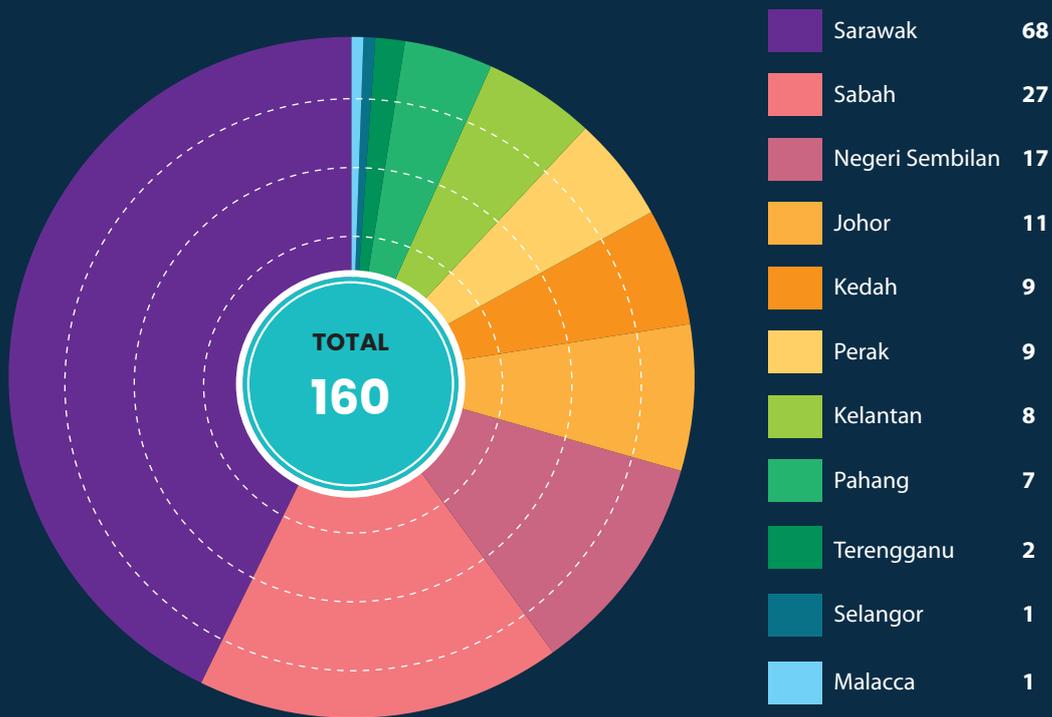
This project benefits the surrounding communities by helping them to connect with the rest of the world, enabling online learning and providing equal opportunities for these communities to participate in the digital economy.



NEW COMMUNICATIONS TOWERS & Upgrading of Base Stations

In 2022, 160 new communications towers were deployed to provide public cellular services and broadband access services in rural and suburban areas nationwide. The deployment was fully funded by the USP Fund and awarded by way of Regulation 5 and Regulation 36A of the Communications and Multimedia (Universal Service Provision) Regulations 2002. As of 31 December 2022, there is a total of 2,748 communications towers funded through the USP Fund since its inception in 2002.

NUMBER OF NEW COMMUNICATIONS TOWERS DEPLOYED (IN 2022)



TOTAL NUMBER OF COMMUNICATIONS TOWERS DEPLOYED



| | | | |
|---|-----|---|-----|
|  Johor | 166 |  Perak | 184 |
|  Kedah | 180 |  Perlis | 3 |
|  Kelantan | 210 |  Sabah | 573 |
|  Malacca | 11 |  Sarawak | 643 |
|  Negeri Sembilan | 159 |  Selangor | 33 |
|  Pahang | 420 |  Terengganu | 166 |

Figure 2:
Number of
Communications Towers
Deployed by State

In addition, 1,886 base stations at existing towers were upgraded to 4G services in 2022 to expand 4G coverage through Regulations 36A of USP Regulations 2002. As of 31 December 2022, a total of 10,693 base stations at existing towers have been upgraded nationwide.

**NUMBER OF
BASE STATIONS
UPGRADED (IN 2022)**



TOTAL NUMBER OF BASE STATIONS UPGRADED



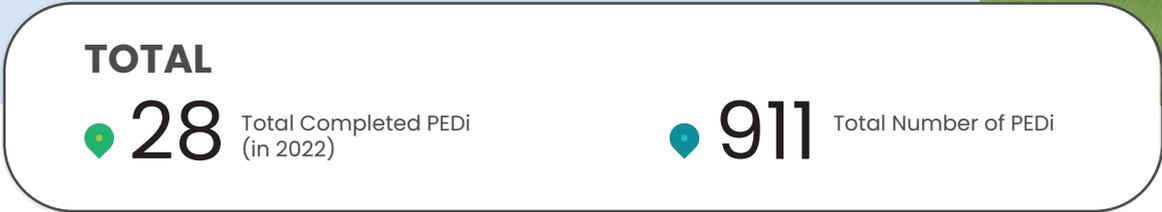
Figure 3:
Number of Base Stations at Existing
Towers Upgraded by State



PUSAT EKONOMI DIGITAL (“PEDI”)

In addition to providing collective Internet access to rural communities and underserved groups, MCMC’s Pusat Ekonomi Digital (“PEDI”) also makes available training programmes in areas such as Information and Communications Technology (“ICT”) and digital entrepreneurship for local communities around PEDI. These programmes are important to provide individuals with the necessary knowledge and skills to participate effectively in the digital economy.

In 2022, 28 new PEDI were set up, bringing the total number of PEDI since its inception in Malaysia to 911 and these centres continue to play an important role in bridging the digital divide and facilitating the socio-economic upliftment of rural and underserved communities through opportunities created by digitalisation.



JOHOR

3
90



KEDAH

3
77



KELANTAN

–
72



MALACCA

1
30



NEGERI SEMBILAN

1
51



PAHANG

2
111



PERAK

4
71



PERLIS

–
14

Figure 4: Number of PEDI by State



PENANG

📍 -
📍 3



SABAH

📍 3
📍 118



SARAWAK

📍 4
📍 133



SELANGOR

📍 5
📍 48



TERENGGANU

📍 2
📍 66



FEDERAL TERRITORY OF KUALA LUMPUR

📍 -
📍 21



FEDERAL TERRITORY OF LABUAN

📍 -
📍 2



FEDERAL TERRITORY OF PUTRAJAYA

📍 -
📍 4

FIBERISATION OF TOWERS

This project is one of the key initiatives identified under the JENDELA plan and implemented through Regulation 36A of the USP Regulations 2002. The project is meant to connect or upgrade the existing base stations' backhaul with fibre optic cables to increase network capacity and reliability, and resulting in better quality of services to end users. This would also enable these communications towers to be used for the delivery of 5G services in the future.

Out of 426 towers across the country identified for the project, 103 towers in Johor, Negeri Sembilan, Perak and Sarawak have been fiberised in 2022.

TOTAL

📍 103

JOHOR

📍 15

NEGERI SEMBILAN

📍 2

PERAK

📍 21

SARAWAK

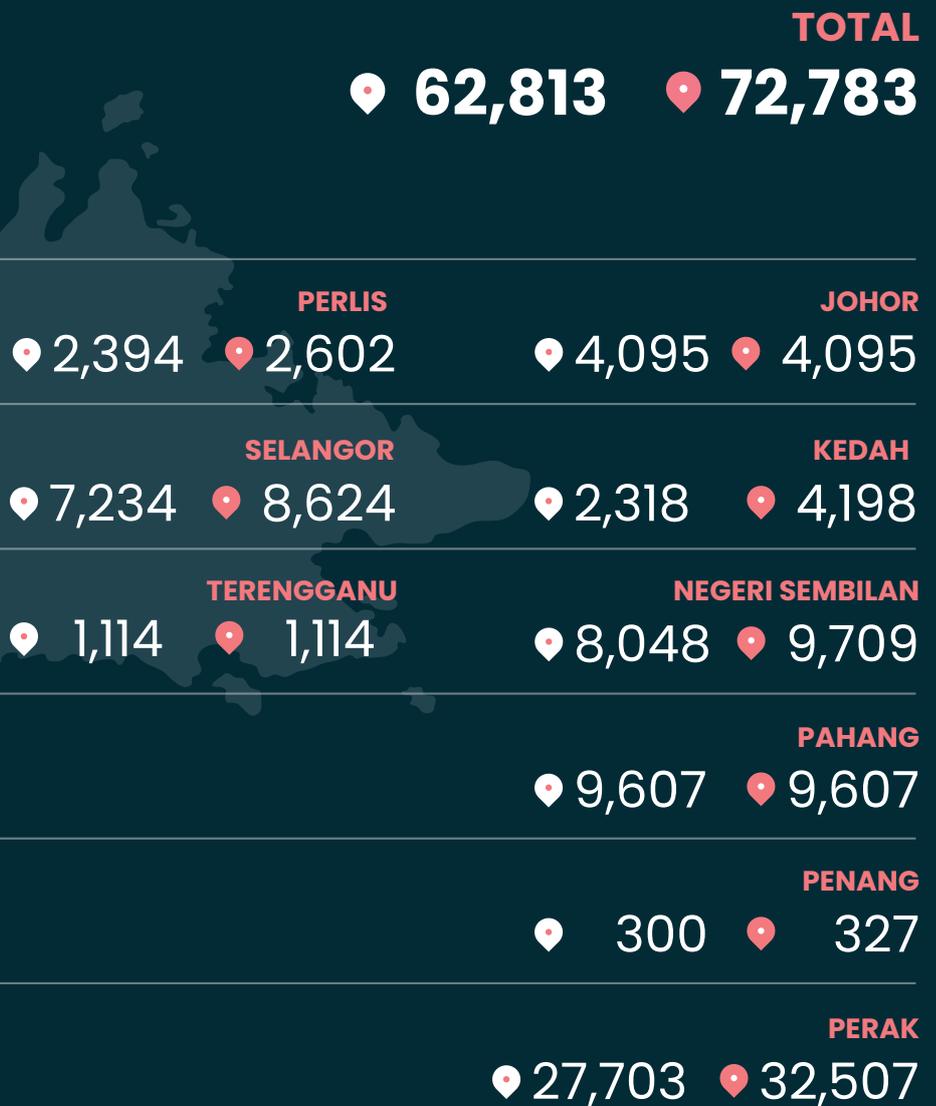
📍 65

📍 Total Towers Fiberised (in 2022)

Figure 5: Number of Towers Fiberised by State

FIBERISATION OF PREMISES

Another initiative identified under the JENDELA plan is fiberisation of premises which targets to expand the fibre optic access footprint to 188,636 premises by 2025. This project is undertaken under Regulation 36A of the USP Regulations 2002.



Total Premises Passed (in 2022)

Total Number of Premises Passed

Figure 6: Number of Premises Passed by State

SUBMARINE CABLE NETWORK SYSTEM INITIATIVE to Islands (Pulau Ketam & Pulau Redang)

In 2022, 30 km of the Submarine Cable Network System initiative was completed, connecting Pulau Redang to Marang in Terengganu. This initiative is funded through Regulation 36A, USP Regulations 2002 which will see a total of 52 km length submarine cable being deployed connecting the mainland to Pulau Ketam in Selangor (17 km) as well as Pulau Redang in Terengganu (35 km) with a 100 Gbps bandwidth capacity.

This project aims to meet the growing demand for broadband capacity of communities within these islands.



Figure 7:
Status of Submarine Cable Network System Initiative to Islands (Pulau Ketam & Pulau Redang)

FIBRE OPTIC BROADBAND ACCESS Network Migration

This is an initiative that aims to migrate the existing Streamyx copper broadband access network by Telekom Malaysia Berhad ("TM") to fibre optic broadband access network within the 433 Universal Service Target ("UST") areas nationwide.

The project was awarded to TM in 2021 pursuant to Regulation 36A under the Communications and Multimedia (Universal Service Provision) Regulations 2002.

As of 31 December 2022, a total number of 248,378 subscribers have been successfully migrated.

| | | NUMBER OF SUBSCRIBERS (AS OF 31 DECEMBER 2022) | | | |
|---|-----------------------------------|--|---------------|---------------|----------------|
| | | Migrated | Churned | Rejected | Total |
|  | Johor | 53,252 | 15,507 | 7,896 | 76,655 |
|  | Kedah | 8,748 | 3,140 | 651 | 12,539 |
|  | Kelantan | 12,480 | 3,119 | 682 | 16,281 |
|  | Malacca | 14,689 | 5,077 | 1,633 | 21,399 |
|  | Negeri Sembilan | 17,488 | 5,333 | 2,319 | 25,140 |
|  | Pahang | 22,347 | 7,308 | 2,512 | 32,167 |
|  | Perak | 44,943 | 13,743 | 4,098 | 62,784 |
|  | Perlis | 111 | 28 | 30 | 169 |
|  | Penang | 8,415 | 6,009 | 2,180 | 16,604 |
|  | Sabah | 10,590 | 4,327 | 1,524 | 16,441 |
|  | Sarawak | 15,244 | 5,011 | 1,272 | 21,527 |
|  | Selangor | 24,033 | 10,909 | 8,005 | 42,947 |
|  | Terengganu | 10,021 | 3,089 | 426 | 13,536 |
|  | Federal Territory of Kuala Lumpur | 4,162 | 6,092 | 5,908 | 16,162 |
|  | Federal Territory of Labuan | 1,507 | 442 | 202 | 2,151 |
|  | Federal Territory of Putrajaya | 348 | 211 | 299 | 858 |
| Grand Total | | 248,378 | 89,345 | 39,637 | 377,360 |



Figure 8: Status of Fibre Optic Broadband Access Network Migration by State

USP FUND





04

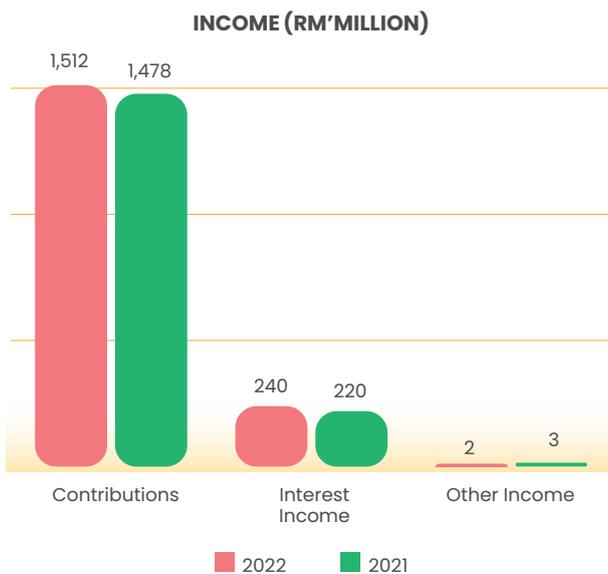
USP GOVERNANCE

Policy and Procedures

In line with the USP Regulations, it is mandatory for telecommunication services companies that record a net revenue of more than RM2 million for the financial year under review to contribute 6% of the determined net revenue to the USP Fund each year. This is an annual obligation and licensees are required to submit the Return of Net Revenue ("RONR") and their audited financial statements of the previous calendar year by 30 June of each year.

2022 FINANCIAL Highlights

INCOME



For the year ended 31 December 2022, USP Fund generated a total revenue of about RM1.75 billion, which was mainly comprised of RM1.51 billion from core income and RM0.24 billion from non-core income. The core income, which was represented by contributions to USP Fund showed a slight increase of 2% or RM34.30 million compared to the previous year of RM1.48 billion.

The non-core income, which is mainly the interest income recorded at RM240.32 million with an increase of 9% compared to the previous year of RM219.90 million.

The increase was attributed to the raise in the Overnight Policy Rate ("OPR"), decided by Bank Negara Malaysia

since May 2022 totalling 100 basis points in response to the strengthening economic post pandemic and to support the weakening currency, as well as upside risks to inflation persist. The latest revision announced in November 2022 resulted to the OPR for 2022 stood at 2.75%, leading the higher weighted average interest rate of 3.22% against 2.23% in 2021.



EXPENSES

USP Fund is the most effective tool to accelerate the deployment of the project by providing such a fund to support the digital inclusion initiative. The main expenditure of the USP Fund is attributable to the costs of USP projects implemented by the Designated Universal Service Provider ("DUSP"). The total expenditure significantly increased by more than 100% to RM2.37 billion as compared to RM870.36 million in the year 2021.

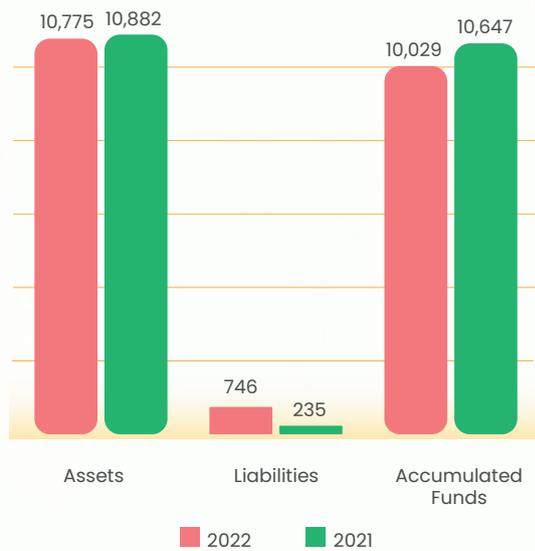
The components that make a huge impact on the expenditure were due to the ongoing USP projects (75%) and a new project, Jalanan Digital Negara ("JENDELA"), which starting to rollout in year 2022.

The continuation of the ongoing USP projects were in relation to the project such as initiatives by Major Contributors, Broadband Wireless Access, Time 3 Extension, National Fiberisation and Connectivity Plan ("NFCP"), and 1 Pusat Ekonomi Digital Keluarga Malaysia ("PEDI").

DEFICIT AFTER TAX REPRESENTS TOTAL LOSSES RECOGNISED

The deficit after tax recognised for the financial year ended 2022 was RM618.24 million as compared to the surplus after tax of RM559.95 million in the previous year. This was mainly due to the huge increase in the USP claims submitted by the DUSPs.

STATEMENT OF FINANCIAL POSITION (RM'MILLION)



ASSETS

The USP Fund ended the financial year 2022 with total assets of RM10.78 billion compared to RM10.88 billion at the end of the previous financial year. There was an increase in other investments which comprised of term deposits with licensed banks of RM10.06 billion compared to the previous year of RM10.04 billion.

Contribution receivables are managed within the ambit of USP Regulations to minimise its credit risk with a total Contributions and Other Receivables of RM453.21 million compared to RM752.69 million in 2021, respectively.

LIABILITIES

Liabilities as at 31 December 2022 increased compared to previous year. This was due to the increase in accruals in respect of USP claims submitted by DUSPs by RM516.20 million, from RM229.90 million recorded in the previous year to RM746.10 million.

ACCUMULATED FUNDS

For the financial year ended 2022, due to the deficit after tax of RM618.24 million, the USP Accumulated Funds recorded a decrease of 6% or RM0.62 billion to RM10.03 billion from RM10.65 billion recorded in the previous year.

FINANCIAL PLANNING AND COMMITMENT

The Communications and Multimedia ("C&M") sector remained resilient despite the COVID-19 crisis. This was due to the continuing demand for essential services provided. COVID-19 has shifted our lifestyle to a new norm. It is envisaged that with quality coverage and exposure to the latest innovations, Malaysians would be more inclined to embrace the global digital era.

In line with the Government's efforts in bridging the digital divide, for the financial year 31 December 2022, the USP Fund implemented the USP programs with a cumulative commitment of RM10.90 billion.

This indicates that MCMC continues to be committed to empowering connectivity and strengthening the Malaysian ecosystem across the sectors of industry and Malaysian citizens through the USP Fund initiatives.

¹ currently known as Pusat Ekonomi Digital ("PEDI")





Statement of Income and
Expenditure and Recognised
Gains and Losses

PG 36

Statement of Cash Flows

PG 37

Notes to the
Financial Statements

PG 38

FINANCIAL STATEMENTS

05



STATEMENT BY THE COMMISSION MEMBERS OF THE Malaysian Communications and Multimedia Commission

We, Tan Sri Mohamad Salim Fateh Din and Dato' Wei Chuan Beng, being two of the Commission Members of the Malaysian Communications and Multimedia Commission, do hereby state that in the opinion of the Commission Members, the financial statements set out on pages 35 to 59 are drawn up in accordance with Malaysian Financial Reporting Standards and International Financial Reporting Standards so as to give a true and fair view of the financial position of the Fund as of 31 December 2022 and of its income and expenditure and cash flows for the financial year then ended.

Signed in accordance with a resolution by the Commission Members of the Malaysian Communications and Multimedia Commission:



Tan Sri Mohamad Salim Fateh Din



Dato' Wei Chuan Beng

Cyberjaya, Selangor

19 APR 2023

STATUTORY DECLARATION

I, Cho Shi Chong, the officer primarily responsible for the financial management of Universal Service Provision Fund, do solemnly and sincerely declare that the financial statements set out on pages 35 to 59 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

Subscribed and solemnly declared by the above named at Putrajaya, Wilayah Persekutuan on

19 APR 2023



Cho Shi Chong

Before me:



19 APR 2023

AIMI ZAINURITHA & CO
Peguambela & Peguamcara
No. 22A, Tingkat 1,
Jalan Diplomatik, Presint 15
62050 Wilayah Persekutuan Putrajaya
Tel: +6019-225 3885
Email: aimizaico@gmail.com

INDEPENDENT AUDITORS' REPORT TO THE COMMISSION MEMBERS of Malaysian Communications and Multimedia Commission

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of Universal Service Provision Fund ("the Fund"), which comprise the statement of financial position as at 31 December 2022 of the Fund, and statement of income and expenditure and recognised gains and losses and statement of cash flows of the Fund for the financial year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 35 to 59.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Fund as at 31 December 2022, and of its financial performance and cash flows for the financial year then ended in accordance with the Malaysian Financial Reporting Standards and International Financial Reporting Standards.

Basis of opinion

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing. Our responsibilities under those standards are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence and other ethical responsibilities

We are independent of the Fund in accordance with the By-Laws (on Professional Ethics, Conduct and Practice) of the Malaysian Institute of Accountants ("By-Laws") and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (including International Independence Standards ("IESBA Code")), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and the IESBA Code.

Information other than the financial statements and auditors' report thereon

The Commission Members of the Malaysian Communications and Multimedia Commission ("the Commission") is responsible for the other information. The other information comprises the annual report, but does not include the financial statements of the Fund and our auditors' report thereon. We expect the annual report to be made available to us after the date of the auditors' report.

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (cont'd.)*Information other than the financial statements and auditors' report thereon (cont'd.)*

Our opinion on the financial statements of the Fund does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements of the Fund, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements of the Fund or our knowledge obtained in the audit or otherwise appears to be materially misstated.

When we read the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the Commission and take appropriate action.

Responsibilities of the Commission for the financial statements

The Commission Members are responsible for the preparation of financial statements of the Fund that give a true and fair view in accordance with the Malaysian Financial Reporting Standards and International Financial Reporting Standards. The Commission Members are also responsible for such internal control as the Commission Members determine is necessary to enable the preparation of financial statements of the Fund that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements of the Fund, the Commission Members are responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Commission either intend to liquidate the Fund or to cease operations, or have no realistic alternative but to do so.

Our objectives are to obtain reasonable assurance about whether the financial statements of the Fund as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with approved standards on auditing in Malaysia and International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (cont'd.)*Auditors' responsibilities for the audit of the financial statements (cont'd.)*

As part of an audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements of the Fund, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Commission.
- Conclude on the appropriateness of the Commission's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements of the Fund or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements of the Fund, including the disclosures, and whether the financial statements of the Fund represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Commission regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Other matters

This report is made solely to the Commission, as a body, in accordance with Regulation 36(2) of the Communications and Multimedia (Universal Service Provision) Regulations 2002 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

**Ernst & Young PLT**

202006000003 (LLP0022760-LCA) & AF 0039

Chartered Accountants

**Ong Chee Wai**

No. 02857/07/2024 J

Chartered Accountant

Kuala Lumpur, Malaysia

19 April 2023

STATEMENT OF FINANCIAL POSITION

As at 31 December 2022

| | Note | 2022 RM'000 | 2021 RM'000 |
|--|------|-------------------|-------------------|
| Assets | | | |
| Non-current asset | | | |
| Deferred tax assets | 3 | 2,027 | 2,617 |
| Current assets | | | |
| Other investments | 4 | 10,061,303 | 10,041,357 |
| Contributions and other receivables | 5 | 453,205 | 752,689 |
| Tax recoverable | | 75,213 | - |
| Cash and cash equivalents | 6 | 183,540 | 85,365 |
| | | 10,773,261 | 10,879,411 |
| Total assets | | 10,775,288 | 10,882,028 |
| Current liabilities | | | |
| Other payables | 7 | 746,100 | 229,901 |
| Tax payable | | - | 4,698 |
| | | 746,100 | 234,599 |
| Represented by: | | | |
| Accumulated funds | 8 | 10,029,188 | 10,647,429 |
| Total liabilities and accumulated funds | | 10,775,288 | 10,882,028 |

The accompanying notes form an integral part of the financial statements.

STATEMENT OF INCOME AND EXPENDITURE AND RECOGNISED GAINS AND LOSSES

For the financial year ended 31 December 2022

| | Note | 2022 RM'000 | 2021 RM'000 |
|--|------|----------------|----------------|
| Income | | | |
| Contributions | 10 | 1,511,944 | 1,477,646 |
| Interest income | | 240,315 | 219,898 |
| Reversal of allowance for expected credit loss | 5 | 1,967 | 3,075 |
| | | 1,754,226 | 1,700,619 |
| Expenditure | | | |
| Claims by USP service providers | 11 | (2,371,580) | (870,358) |
| Other expenses | | (1) | (2) |
| | | (2,371,581) | (870,360) |
| (Deficit)/surplus before tax | | (617,355) | 830,259 |
| Taxation | 12 | (886) | (270,307) |
| (Deficit)/surplus after tax, representing total recognised (losses)/gains | | (618,241) | 559,952 |

The accompanying notes form an integral part of the financial statements.

STATEMENT OF CASH FLOWS

For the financial year ended 31 December 2022

| Note | 2022 RM'000 | 2021 RM'000 |
|--|------------------|------------------|
| Cash flows from operating activities | | |
| (Deficit)/surplus before tax | (617,355) | 830,259 |
| Adjustments for: | | |
| Reversal of allowance for expected credit loss | (1,967) | (3,075) |
| Interest income | (240,315) | (219,898) |
| Operating (deficit)/surplus before changes in working capital | (859,637) | 607,286 |
| Changes in working capital: | | |
| Contributions and other receivables | 301,451 | 34,746 |
| Other payables | 516,199 | (258,223) |
| Cash (used in)/generated from operations | (41,987) | 383,809 |
| Tax paid | (80,207) | (382,213) |
| Net cash (used in)/generated from operating activities | (122,194) | 1,596 |
| Cash flows from investing activities | | |
| Interest received | 240,369 | 252,512 |
| Placement in other investments | (20,000) | (640,000) |
| Net cash generated from/(used in) investing activities | 220,369 | (387,488) |
| Net increase/(decrease) in cash and cash equivalents | 98,175 | (385,892) |
| Cash and cash equivalents as at 1 January | 85,365 | 471,257 |
| Cash and cash equivalents as at 31 December | 183,540 | 85,365 |

6

The accompanying notes form an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2022

1. Corporate information

The principal activities of the Universal Service Provision Fund (“the Fund”) are to promote the widespread availability and usage of network services and/or application services throughout Malaysia by encouraging the installation of network facilities and the provision for network service and/or applications services in underserved areas or for underserved groups within the community.

The Fund was established under Section 204 of the Communications and Multimedia Act 1998 and is regulated by the Communications and Multimedia (Universal Service Provision) Regulations 2002 (“USP Regulations”). The Fund commenced its operations in September 2002. The Fund is managed by the Commission Members and other key management personnel of the Malaysian Communications and Multimedia Commission (“the Commission”) in accordance to the aforesaid regulations.

The address of the principal place of business is as follows:

Malaysian Communications and Multimedia Commission
MCMC Tower 1, Jalan Impact, Cyber 6
63000 Cyberjaya
Selangor Darul Ehsan

These financial statements were authorised for issue by the Commission Members on 19 April 2023.

2. Summary of significant accounting policies

2.1 Basis of preparation

The financial statements of the Fund have been prepared in accordance with Malaysian Financial Reporting Standards (“MFRSs”). The financial statements also comply with the International Financial Reporting Standards as issued by the International Accounting Standards Board.

The financial statements have been prepared on the historical cost basis except as disclosed in the accounting policies below. The financial statements are presented in Ringgit Malaysia (“RM”) and all values are rounded to the nearest thousand (“RM’000”) except when otherwise indicated.

2. Summary of significant accounting policies (contd.)

2.2 Changes in accounting policies

On 1 January 2022, the Fund adopted the following new and amended MFRSs mandatory for annual financial periods beginning on or after the dates stated below:

| Description | Effective for annual periods beginning on or after |
|---|--|
| Amendments to Annual Improvements to MFRS Standards 2018-2020 | 1 January 2022 |
| MFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities | 1 January 2022 |
| Onerous Contracts–Cost of Fulfilling a Contract (Amendments to MFRS 137 Provisions, Contingent Liabilities and Contingent Assets) | 1 January 2022 |

The adoption of the standards above have no material impact on the financial statements in the period of initial application.

2.3 Standards issued but not yet effective

The standards that are issued but not yet effective up to the date of issuance of the Fund's financial statements are disclosed below. The Fund intends to adopt these standards, if applicable, when they become effective.

| Description | Effective for annual periods beginning on or after |
|--|--|
| Non-current Liabilities with Covenants – Amendments to MFRS 101 Presentation of Financial Statements | 1 January 2024 |
| Lease Liability in a Sale and Leaseback – Amendments to MFRS 16 Leases | 1 January 2024 |
| Classification of Liabilities as Current or Non-current – Amendments to MFRS 101 Presentation of Financial Statements | 1 January 2023 |
| Definition of Accounting Estimates – Amendments to MFRS 108 | 1 January 2023 |
| Disclosure of Accounting Policies – Amendments to MFRS 101 and MFRS Practice Statement 2 | 1 January 2023 |
| Deferred Tax related to Assets and Liabilities arising from a Single Transaction – Amendments to MFRS 112 | 1 January 2023 |
| MFRS 17 Insurance Contracts | 1 January 2023 |
| Sale or Contribution of Assets between an investor and its Associate or Joint Venture – Amendments to MFRS 10 and MFRS 128 | 1 January 2023 |
| Initial Application of MFRS 17 and MFRS 9 (Comparative Information) – Amendments to MFRS 17 | 1 January 2023 |

2. Summary of significant accounting policies (cont'd.)

2.3 Standards issued but not yet effective (cont'd.)

The Commission expects that the adoption of the above standards will have no material impact on the financial statements in the period of initial application.

2.4 Income taxes

(a) Current income tax

Current tax assets and liabilities are measured at the amounts expected to be recovered from or paid to the tax authorities. The tax rates and tax laws used to compute the amounts are those that are enacted or substantively enacted, at the reporting date in the countries where the Fund operates and generates taxable income.

Current taxes are recognised in profit or loss except to the extent that the tax relates to items recognised outside profit or loss, either in other comprehensive income or directly in equity.

(b) Deferred tax

Deferred tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint controlled entities, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

2. Summary of significant accounting policies (cont'd.)

2.4 Income taxes (cont'd.)

(b) Deferred tax (cont'd.)

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amounts of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax assets to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity and deferred tax arising from a business combination is adjusted against goodwill on acquisition.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same tax authority.

2. Summary of significant accounting policies (cont'd.)

2.5 Recognition of income

(a) Contributions from licensees

Contributions are recognised on the accrual basis on the licensees' annual Return of Net Revenue ("RONR") stated at 6% on weighted net revenue of the prior calendar year. Licensees whose net revenue is below RM2 million in the previous calendar year are not required to contribute.

Potential contributions from licensees who did not submit their annual RONR are recognised based on preceding year's RONR. If either of these is not available, revenue is not recognised due to the material uncertainty relating to the amount of contributions payable by the said licensees.

(b) Interest income

Interest income is recognised as it accrues using the effective interest method in the statement of income and expenditure.

2.6 Claims by service providers

Claims are recognised as liabilities when the Fund has a present obligation as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount can be made.

A present obligation arise when a complete set of claims documentation is received and the progress of the projects have been verified by the Commission. Claims are reviewed at each reporting date and adjusted to reflect the current best estimate.

2.7 Financial assets

Initial recognition

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income ("OCI") or fair value through profit or loss.

2. Summary of significant accounting policies (cont'd.)

2.7 Financial assets (cont'd.)

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Fund's business model for managing them. With the exception of contributions receivables that do not contain a significant financing component or for which the Fund has applied the practical expedient, the Fund initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, directly attributable transaction costs. Contributions receivables that do not contain a significant financing component or for which the Fund has applied the practical expedient are measured at the transaction price determined under MFRS 15. Please refer to the accounting policies stated in Note 2.5(a).

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Fund commits to purchase or sell the asset.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest ("SPPI")' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at the instrument level.

The Fund's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in four categories:

- (i) Financial assets at amortised cost (debt instrument);
- (ii) Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments);
- (iii) Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments); or
- (iv) Financial assets at fair value through profit or loss.

2. Summary of significant accounting policies (cont'd.)

2.7 Financial assets (cont'd.)

Subsequent measurement (cont'd.)

The Fund categorises its financial assets based on the following:

(i) Financial assets at amortised cost

The Fund measures financial assets at amortised cost if both of the following conditions are met:

- (i) The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- (ii) The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest rate ("EIR") method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Fund's contributions and other receivables are categorised as financial assets at amortised cost.

(ii) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

The Fund's other investments are categorised as financial assets at fair value through profit or loss.

2. Summary of significant accounting policies (cont'd.)

2.7 Financial assets (cont'd.)

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Fund's statement of financial position) when:

- (i) The rights to receive cash flows from the asset have expired; or
- (ii) The Fund has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Fund has transferred substantially all the risks and rewards of the asset, or (b) the Fund has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Fund has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Fund continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Fund also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Fund has retained.

2.8 Financial liabilities

Initial recognition

Financial liabilities are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability.

Financial liabilities are recognised in the statement of financial position when, and only when, the Fund becomes a party to the contractual provisions of the financial instrument. The Fund's financial liabilities are classified as subsequently measured at amortised cost. The Fund has not designated any financial liabilities as at fair value through profit or loss.

Subsequent measurement

Other payables are recognised initially at fair value plus directly attributable transaction costs and subsequently measured at amortised cost using the effective interest rate method.

2. Summary of significant accounting policies (cont'd.)

2.8 Financial liabilities (cont'd.)

Derecognition

A financial liability is derecognised when the obligation under the liability is extinguished. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

2.9 Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, balances and deposits with banks and are measured as financial assets at amortised cost in accordance with policy Note 2.7.

2.10 Impairment of financial assets

The Fund recognises an allowance for expected credit loss ("ECL") for all debt instruments not held at fair value through profit or loss. ECL is based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Fund expects to receive.

ECL is recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECL is provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For contributions receivables, the Fund applies a simplified approach in calculating ECL. Therefore, the Fund does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECL at each reporting date. The Fund has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

2. Summary of significant accounting policies (cont'd.)

2.11 Fair value measurement

Fair value of an asset or a liability is determined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The measurement assumes that the transaction to sell the asset or transfer the liability takes place either in the principal market or in the absence of a principal market, in the most advantageous market.

For non-financial asset, the fair value measurement takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

When measuring the fair value of an asset or a liability, the Commission uses observable market data as far as possible. Fair value is categorised into different levels in a fair value hierarchy based on the input used in the valuation technique as follows:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Fund can access at the measurement date.
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3: Unobservable inputs for the asset or liability.

The Fund recognises transfers between levels of the fair value hierarchy as at the date of the event or change in circumstances that caused the transfers.

2.12 Current and non-current classification

The Fund presents assets and liabilities in statements of financial position based on current and non-current classification.

An asset is classified as current when it is:

- expected to be realised or intended to be sold or consumed in normal operating cycle;
- held primarily for the purpose of trading;
- expected to be realised within 12 months after the reporting period; or
- cash and cash equivalents unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period.

All other assets are classified as non-current.

2. Summary of significant accounting policies (cont'd.)

2.12 Current and non-current classification (cont'd.)

A liability is classified as current when:

- it is expected to be settled in normal operating cycle;
- it is held primarily for the purpose of trading;
- it is due to be settled within 12 months after the reporting period; or
- there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period.

All other liabilities are classified as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities, respectively.

2.13 Significant accounting judgements and estimates

The preparation of the Fund's financial statements requires the Commission to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future.

(a) Critical judgements made in applying accounting policies

There were no critical judgements made in applying the accounting policies of the Fund which may have significant effects on the amounts recognised in the financial statements.

(b) Key sources of estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

(i) Income taxes

Significant estimation is involved in determining the provision for income taxes. There are certain transactions and computations for which the ultimate tax determination is uncertain during the ordinary course of business. The Fund recognises liabilities for expected tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recognised, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

2. Summary of significant accounting policies (cont'd.)

2.13 Significant accounting judgements and estimates (cont'd.)

(b) Key sources of estimation uncertainty (cont'd.)

(ii) Deferred taxation

Deferred tax assets are recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Further details are disclosed in Note 3.

(iii) Provision for ECL for contributions receivables

The Fund uses a provision matrix to calculate ECL for contributions receivables. The provision rates are based on days past due for groupings of various licensee segments that have similar loss patterns.

The provision matrix is initially based on the Fund's historical observed default rates. The Fund will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions are expected to deteriorate over the next financial year which can lead to an increased number of defaults, the historical default rates are adjusted. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECL is a significant estimate. The amounts of ECL are sensitive to changes in circumstances and of forecast economic conditions. The Fund's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future.

However, the Fund concluded that customers' ECL does not have high correlation with forecast economic factors.

The information about the ECL on the Fund's contributions receivables is disclosed in Note 5.

2. Summary of significant accounting policies (cont'd.)

2.13 Significant accounting judgements and estimates (cont'd.)

(b) Key sources of estimation uncertainty (cont'd.)

(iv) Unbilled receivables

Unbilled receivables primarily relate to rights to consideration for contributions to be made by licensees but have yet to be notified at the reporting date. The rights to consideration for contributions are based on the USP Regulations, where the Fund has a right to estimate the contribution for a particular calendar year based on the information that is available and the decision of the Fund shall be final if the RONR and related documentations are not submitted within the stipulated deadline.

Contributions are recognised on an accrual basis on the licensees' annual RONR stated at 6% on weighted net revenue of the prior calendar year. As such, the amount of unbilled receivables will be based on the latest RONR reports received from the licensees.

3. Deferred tax assets

| | 2022 RM'000 | 2021 RM'000 |
|---|----------------|----------------|
| At beginning of financial year | 2,617 | 3,540 |
| Recognised in statement of income and expenditure (Note 12) | (590) | (923) |
| At end of financial year | 2,027 | 2,617 |
| Presented after appropriate offsetting as follows: | | |
| Deferred tax assets | 2,027 | 2,617 |
| Deferred tax liabilities | - | - |
| | 2,027 | 2,617 |

3. Deferred tax assets (cont'd.)

The components and movements of deferred tax assets during the financial year prior to offsetting are as follows:

Deferred tax assets of the Fund:

| | Provision for ECL RM'000 |
|---|-----------------------------|
| At 1 January 2022 | 2,617 |
| Recognised in statement of income and expenditure | (590) |
| At 31 December 2022 | <u>2,027</u> |
| At 1 January 2021 | 3,540 |
| Recognised in statement of income and expenditure | (923) |
| At 31 December 2021 | <u>2,617</u> |

The amount of unused tax losses of which no deferred tax asset is recognised in the statement of financial position as at 31 December 2022 was RM619,323,000 (2021: Nil). Deferred tax assets have not been recognised in respect of this item as the Fund has a recent history of losses and future taxable profits may be insufficient to trigger the utilisation of this item.

Under New Section 44(5F) of the Income Tax Act 1967, unused business losses up to the year of assessment 2018 shall be deductible against the aggregate of statutory incomes until the year of assessment 2025. Any amount that has not been deducted at the end of the year of assessment 2025 shall be disregarded.

Any unused business losses for the year of assessment 2019 onwards shall be deductible for a maximum period of 10 consecutive years of assessment immediately following that year of assessment. Any amount which is not deductible at the end of the period of 10 years of assessment shall be disregarded.

4. Other investments

These comprise term deposits with:

- licensed banks

| | 2022 RM'000 | 2021 RM'000 |
|--|----------------|----------------|
| | 10,061,303 | 10,041,357 |

Short term deposits with licensed banks are made with maturities ranging from 3 to 12 months (2021: 3 to 12 months). The deposits bore weighted average interest rate of 3.22% (2021: 2.23%).

5. Contributions and other receivables

| | 2022 RM'000 | 2021 RM'000 |
|--|----------------|----------------|
| Contributions receivables | 432,550 | 738,656 |
| Less: allowance for ECL (Note b) | (10,103) | (12,070) |
| | 422,447 | 726,586 |
| Contract assets (Note a) | 30,758 | 26,103 |
| Total contribution and other receivables | 453,205 | 752,689 |
| Add: Cash and cash equivalents (Note 6) | 183,540 | 85,365 |
| Total financial assets at amortised cost | 636,745 | 838,054 |

(a) Contract assets

Contract assets are unbilled receivables which primarily relate to rights to consideration for contributions to be made by licensees but have yet to be notified at the reporting date.

(b) Provision for ECL

| | 2022 RM'000 | 2021 RM'000 |
|------------------------------------|----------------|----------------|
| At 1 January | 12,070 | 15,145 |
| Reversal during the financial year | (1,967) | (3,075) |
| At 31 December | 10,103 | 12,070 |

5. Contributions and other receivables (cont'd.)

(b) Provision for ECL (cont'd.)

An impairment analysis is performed at each reporting date using a provision matrix to measure ECL. The provision rates are based on days past due for groupings of various licensee segments with similar loss patterns. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, receivables are provided for if past due for more than one year and are not subject to enforcement activity.

Set out below is the information of the credit risk exposure on the Fund's receivables using a provision matrix:

31 December 2022

| | Average ECL rate % | Gross carrying amount RM'000 | Provision for ECL RM'000 |
|--------------------|-----------------------|---------------------------------|-----------------------------|
| 1 to 30 days | 1% | 17,940 | 99 |
| 31 to 60 days | 0.1% | 72,059 | 45 |
| 61 to 90 days | 0.0% | - | - |
| 91 to 120 days | 0.7% | 15,510 | 101 |
| 121 to 365 days | 0.1% | 317,515 | 331 |
| More than 365 days | 100% | 9,526 | 9,527 |
| | | 432,550 | 10,103 |

31 December 2021

| | Average ECL rate % | Gross carrying amount RM'000 | Provision for ECL RM'000 |
|--------------------|-----------------------|---------------------------------|-----------------------------|
| 1 to 30 days | 1% | 23,088 | 327 |
| 31 to 60 days | 0.1% | 168,949 | 114 |
| 61 to 90 days | 0.3% | 306,269 | 937 |
| 91 to 120 days | 4% | 5,954 | 223 |
| 121 to 365 days | 0.5% | 224,963 | 1,036 |
| More than 365 days | 100% | 9,433 | 9,433 |
| | | 738,656 | 12,070 |

6. Cash and cash equivalents

| | 2022 RM'000 | 2021 RM'000 |
|--|----------------|----------------|
| Cash at bank | 80,001 | 1,259 |
| Deposits with licensed banks | 103,539 | 84,106 |
| Total cash and cash equivalents | 183,540 | 85,365 |

Deposits with licensed banks are made for maturity periods between one day and 3 months (2021: one day and 3 months) depending on the immediate cash requirements of the Fund with weighted average interest rate of 2.55% (2021: 1.80%).

As at the reporting date, the Fund's cash at bank balances was placed under a sweep arrangement in the name of the Commission on behalf of the Fund.

Information on financial risks of cash and cash equivalents are disclosed in Note 14.

7. Other payables

| | 2022 RM'000 | 2021 RM'000 |
|---|----------------|----------------|
| Accrued Universal Service Provision ("USP") claims | 746,100 | 229,753 |
| Sundry payables | - | 148 |
| Total other payables, representing total financial liabilities at amortised cost | 746,100 | 229,901 |

8. Accumulated funds

| | 2022 RM'000 | 2021 RM'000 |
|-----------------------------|-------------------|-------------------|
| As at 1 January | 10,647,429 | 10,087,477 |
| (Deficit)/surplus after tax | (618,241) | 559,952 |
| As at 31 December | 10,029,188 | 10,647,429 |

Payment out of the USP Fund is governed by the Communications and Multimedia (Universal Service Provision) Regulations 2002. The USP Fund shall be expended for advances for USP projects, claims from designated universal service providers and refunding any overpaid contribution.

9. Audit fee

Audit fee of RM90,000 (2021: RM90,000) is borne by the Commission.

10. Contributions

Contributions represent funds received from licensees who are required to contribute to the Fund as stipulated in the licence granted by MCMC.

There are no disaggregated information to be presented as the Fund only has one source of revenue. Contributions are recognised at a point in time.

Information relating to contributions receivables balances arising from contracts with licensees is disclosed in Note 5.

11. Claims by service providers

These relates to cost of USP projects, comprising both capital and operating expenditures. The cost is recognised as an expense when the Fund has verified the progress of the projects and are satisfied with the completeness of claims documentation received from the USP service providers.

Claims by service providers were in relation to the following projects:

| | 2022 RM'000 | 2021 RM'000 |
|--|----------------|----------------|
| Major contributors initiatives | 961,670 | 438,747 |
| Broadband Wireless Access | 140,990 | 9,306 |
| Time 3 Extension | 221,854 | 213,927 |
| Jalanan Digital Negara ("JENDELA") | 598,021 | - |
| National Fiberisation and Connectivity Plan ("NFCP") | 194,193 | 62,507 |
| Pusat Ekonomi Digital Keluarga Malaysia ("PEDI") | 254,852 | 145,871 |
| | 2,371,580 | 870,358 |

12. Taxation

| | 2022 RM'000 | 2021 RM'000 |
|---|----------------|----------------|
| Income tax expense | - | 247,776 |
| - Current financial year | 296 | 21,608 |
| - Under provision in prior financial years | 296 | 269,384 |
| Deferred tax expense (Note 3) | | |
| - Origination and reversal of temporary differences | 590 | 923 |
| Total tax expense | 886 | 270,307 |

The Fund's chargeable income is taxed at scaled rates that are applicable to individuals. The first RM1 million is taxed at rates determined by the tax authority for each year of assessment. Chargeable income for the next RM1 million and beyond RM2 million are taxed at the statutory tax rate of 28% (2021: 28%) and 30% (2021: 30%) respectively.

A reconciliation of income tax (credit)/expense is applicable to (deficit)/surplus before tax at the statutory income tax rate to income tax (credit)/expense at the effective income tax rate of the Fund is as follows:

| | 2022 RM'000 | 2021 RM'000 |
|---|----------------|----------------|
| (Deficit)/surplus before tax | (617,355) | 830,259 |
| Tax on first RM2,000,000 (2021: RM1,000,000) | (517) | 238 |
| Remaining tax at statutory tax rate of 30% (2021: 30%) | (184,690) | 248,757 |
| Income not subject to tax | - | (296) |
| Under provision of income tax in prior financial years | 296 | 21,608 |
| Deferred tax assets not recognised on unused tax losses | 185,797 | - |
| Total tax expense | 886 | 270,307 |

13. Commitment

| | 2022 RM'000 | 2021 RM'000 |
|---|-------------------|-------------------|
| Costs for the implementation of USP projects: | | |
| Approved but not awarded | 1,268,095 | 4,630,000 |
| Awarded but not provided for | 9,636,354 | 6,289,325 |
| | 10,904,449 | 10,919,325 |

14. Financial instruments

(a) Financial risk management objectives and policies

The Fund is exposed to financial risks arising from its operations and the use of financial instruments. The key financial risks include interest rate risk (both fair value and cash flow), liquidity risk and credit risk.

The Commission reviews and agrees policies and procedures for the management of these risks, which are executed by the Chairman. The audit committee provides independent oversight to the effectiveness of the risk management process.

(b) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of the Fund's financial instruments will fluctuate because of changes in market interest rates.

The Fund's exposure to interest rate risk arises primarily from deposits with licensed banks and financial institutions.

Interest on financial instruments subject to floating interest rates is contractually repriced at intervals of less than 7 days (2021: less than 7 days). The other financial instruments of the Fund that are not subject to floating interest rates will not be subject to interest rate risks.

(c) Liquidity risk

Liquidity risk is the risk that the Fund will not be able to meet its project requirements as they fall due. The Fund's exposure to liquidity risk arises principally from its other payables.

The Fund maintains sufficient levels of cash and cash equivalents to ensure, as far as possible, that it will be able to meet its liabilities when they fall due.

The Fund's liabilities are all payable within one year after the financial year end.

(d) Credit risk

Credit risk is the risk of a financial loss to the Fund if a service provider or counterparty to a financial instrument fails to meet its contractual obligations. The Fund's exposure to credit risk arises principally from its contributions and other receivables and deposits placed with licensed banks.

14. Financial instruments (contd.)

(d) Credit risk (contd.)

Contributions and other receivables

As at the reporting date, the maximum credit exposure on receivables is limited to the carrying amount of the receivables less provision for expected credit loss.

The Commission has taken reasonable steps to ensure that receivables that are neither past due nor impaired are stated at their realisable values.

Details of expected credit loss in relation to receivables are disclosed in Note 5.

The Fund's credit period with its licensees is generally for a period of 30 days (2021: 30 days), except for licensees who wish to contribute in two instalments, where the credit period for the second instalment is generally for a period of 180 days (2021: 180 days). The Fund seeks to maintain strict control over its outstanding contributions and has procedures in place to minimize credit risk. Overdue balances are reviewed regularly by senior management. Any outstanding contribution having significant balances past due more than 365 days (2021: 365 days), which are deemed to have a higher credit risk, will be monitored individually.

Deposits placed with licensed banks

Deposits are allowed to be placed only with licensed financial institutions.

Exposure to credit risk, credit quality and collateral

As at the end of the reporting period, the Fund has only placed deposits with domestic licensed banks. The maximum exposure to credit risk arising from deposits placed with licensed banks is represented by the carrying amounts in the statement of financial position.

(e) Fair value of financial instruments

The carrying amounts of cash and cash equivalents, contributions and other receivables and other payables reasonably approximate their fair values due to the relatively short term nature of these financial instruments.

15. Related parties

Identity of related parties

For the purposes of these financial statements, parties are considered to be related to the Fund if the Fund has the ability, directly or indirectly, to control or to jointly control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Fund and the party are subject to common control. Related parties may be individuals or other entities.

Related parties also include key management personnel defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Fund either directly or indirectly. Key management personnel include all the Members of the Commission and senior management of the Commission.

The Government of Malaysia ("GOM") including those entities controlled, jointly controlled or under significant influence by the GOM are considered as related parties of the Commission. All the transactions processed by the Commission for the GOM-related entities are conducted in the ordinary course of business.

There are no related party transactions during the current and prior financial year other than as disclosed elsewhere in the financial statements.

16. Transactions with key management personnel

There are no transactions with key management personnel in the current and prior financial year. The remuneration of key management personnel are paid by the Commission.

17. Fund management policy

The primary objective of the Fund's fund management is to ensure that it is able to meet its project requirements as and when they fall due and to achieve its operational objectives.

The Fund manages its accumulated funds by budgeting its funding needs ahead and adjust its expenditures as required. The Fund continuously monitors its budget against actual results and identify efficiencies in its operations.

No changes were made in the objectives, policies or processes during the financial years ended 31 December 2022 and 2021.



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