

PRESTARIANG BERHAD ("PRESBHD" or "THE COMPANY")

STATEMENT OF MATERIAL UNCERTAINTY RELATED TO GOING CONCERN IN RESPECT OF PRESBHD'S FINANCIAL STATEMENTS FOR THE FINANCIAL PERIOD ENDED 30 JUNE 2019

Introduction

Pursuant to Paragraph 9.19(37) of the Bursa Malaysia Securities Berhad Main Market Listing Requirements, the Board of Directors of PRESBHD wishes to announce that the Company's independent auditors, Messrs. Crowe Malaysia PLT has included a statement of material uncertainty related to going concern in its Independent Auditors' Report dated 19 September 2019 in respect of the financial statements of the Group and the Company for the financial period ended 30 June 2019.

Kindly find below the extract of the aforesaid Independent Auditors' Report:

"Opinion"

We have audited the financial statements of Prestariang Berhad, which comprise the statements of financial position as at 30 June 2019 of the Group and of the Company, and the statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Company for the financial period then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 138 to 240.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Group and of the Company as at 30 June 2019, and of their financial performance and their cash flows for the financial period then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

Basis for 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 opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 4.2 in the financial statements, which indicates that:-

- (a) The termination of Sistem Kawalan Imigresen Nasional ("SKIN") project by the Government of Malaysia ("GOM"), resulting in the Group undertaking a legal suit against the GOM to recover the sums due under the SKIN project. Further details on the amount due for the SKIN project and legal suit are disclosed in Notes 14(b) and 52 respectively;
- (b) During the financial period ended 30 June 2019, the Group and the Company recorded:-
 - (i) negative operating cash flows of RM72,253,000 and RM12,365,000 respectively; and

(ii) loss after taxation of RM8,957,000 and RM53,312,000 respectively.

(c) The Group has accepted advances of RM1,500,000 and RM5,000,000 from a director and a former director of the Company respectively for working capital purpose.

These indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern and whether the Group and the Company have sufficient cash flows to meet their obligations as and when they fall due.

In the preparation of the Group financial statements, the management has made an assessment on its working capital sufficiency and with the support of a cash flow projection. The management has concluded that the Group and the Company shall have sufficient working capital to finance their operations and to meet their financial obligations as and when they fall due.

As at the end of the reporting period and as at the date these financial statements were authorised for issue, the directors believe that there is no material uncertainty exists over the ability of the Group and the Company to continue on a going concern basis. Accordingly, the financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that may be necessary if the Group and the Company are unable to continue as a going concern.

Our opinion is not modified in respect of this matter.

Key Audit Matters

Below are the key audit matters that have been reported by the independent auditors in the Independent Auditors' Report:

Revenue and cost recognition for SKIN Project Refer to Note 33 to the financial statements	
Key Audit Matter	How our audit addressed the key audit matter
<p>The Group has reported revenue and cost of sales of approximately RM175.5 million and RM105.0 million, respectively for the SKIN Project during the financial period.</p> <p>The recognition of revenue on the SKIN Project is based on the percentage of completion method. The determination of the percentage of completion requires management to exercise significant judgement in estimating the total costs to complete the SKIN Project.</p> <p>We determined this to be a key audit matter due to the complexity and judgemental nature of the budgeting of contract costs and the determination of revenue recognised.</p>	<p>Our procedures included, amongst others:-</p> <ul style="list-style-type: none">• Reviewed the contracts and discussed with management to obtain a full understanding of the terms and risks to assess the appropriateness of revenue recognition;• Assessed the management's assessment in determining the percentage of completion of projects and estimations of budgeted revenue and costs;• Assessed the reliability of total budgeted costs by comparing budgeted costs to actual outcomes;• Performed verification on the actual costs incurred for the financial period; and• Performed re-computation on the profit recognised and checked

	calculation of the percentage of completion
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Valuation of other investment Refer to Note 9 to the financial statements	
Key Audit Matter	How our audit addressed the key audit matter
<p>The Group classifies its unquoted equity investments as Fair Value Through Other Comprehensive Income ("FVOCI"). In estimating the fair value of these investments, the Group used valuation techniques which took into consideration key assumptions, estimates and/or unobservable input information of the underlying company in which the Group has invested in.</p> <p>We focused on this area as it involved the exercise of significant judgement by the directors and the use of assumptions and estimates.</p>	<p>Our procedures included, amongst others:-</p> <ul style="list-style-type: none"> • Obtained an understanding of the methodology adopted by management in estimating the fair value of these investments and whether such methodology is consistent with those used in the industry; • Discussed with management to obtain an understanding of the related underlying data used as input to the valuation models; • Discussed with the management the key assumptions and estimates used in the valuation model; and • Assessed the appropriateness of the valuation techniques and checked the reasonableness of the discount rate used, with the assistance of our valuation experts.

Impairment assessment of trade receivables Refer to Notes 14 and 49.1(b)(iii) to the financial statements	
Key Audit Matter	How our audit addressed the key audit matter
<p>As at 30 June 2019, trade receivables amounted to approximately RM200.32 million. The details of trade receivables and its credit risks are disclosed in Note 49.1(b)(iii) to the financial statements.</p> <p>The management applied assumptions in assessing the level of allowance for impairment losses on trade receivables based on the following:-</p> <ul style="list-style-type: none"> • customers' payment profiles of past sales and corresponding historical credit losses; • specific known facts or circumstances on customers' ability to pay; or • by reference to past default experience. 	<p>Our procedures included, amongst others:-</p> <ul style="list-style-type: none"> • Obtained an understanding of:- <ul style="list-style-type: none"> • the Group's control over the receivable collection process; • how the Group identifies and assesses the impairment of receivables; and • how the Group makes the accounting estimates for impairment. • Reviewed the ageing analysis of receivables and testing the reliability thereof; • Reviewed subsequent cash collections for major receivables and overdue amounts;

<p>The impairment assessment involves significant judgements and there is inherent uncertainty in the assumptions applied by the management to determine the level of allowance.</p> <p>This is considered a key audit matter due to the inherent subjectivity that is involved in making judgement in relation to the recoverability of trade receivables.</p>	<ul style="list-style-type: none"> • Made inquiries of management regarding the action plans to recover overdue amounts; • Examined other evidence including customers' correspondences, proposed or existing settlement plans, repayment schedules, etc; and • Evaluating the reasonableness and adequacy of the allowance for impairment loss recognised.
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<p>Development costs Refer to Note 11 to the financial statements</p>	
<p>Key Audit Matter</p>	<p>How our audit addressed the key audit matter</p>
<p>Management exercise their judgment in determining the development costs that are qualified for capitalisation with respect to the technical feasibility of the products developed and ability to generate future economic benefits.</p> <p>This is considered a key audit matter given the materiality of the Group's development costs and the inherent subjectivity in impairment testing.</p> <p>The aforementioned impairment review gave rise to impairment loss of RM9,644,000 to the Group as disclosed in Note 11 to the financial statements.</p>	<p>Our procedures included, amongst others:</p> <ul style="list-style-type: none"> • Made enquiries on the latest development and status of these projects and reviewed management's assessment of impairment by considering both internal and external sources of information; • Reviewed the management measurement and assessment in the identification of additional development costs capitalised; • Reviewed management's estimate of the recoverable amounts and tested the cash flow forecasts for their accuracy; • Evaluated the appropriateness and reasonableness of the key assumptions; • Performed sensitivity analysis over the key assumptions to understand the impact of changes over the recoverable amounts; and • Reviewed the adequacy of disclosure in the financial statements."

Steps taken or proposed to be taken and timeline to address the Key Audit Matters that pertaining to the material uncertainty related to going concern

1. The Material Uncertainty to Going Concern highlighted in the Independent Auditors' Report was due to the termination of Sistem Kawalan Imigresen Nasional ("SKIN") project by the Government of Malaysia ("GOM"). Prestariang SKIN Sdn.Bhd. ("PSKIN"), a wholly owned subsidiary of Prestariang Services Sdn. Bhd., which is a subsidiary of the Company has filed and served an Originating Summons

("OS") dated 15 April 2019 against the Government of Malaysia ("GOM") claiming the amount of RM733 million in relation to the termination of the SKIN by expropriation.

On 30 October 2019, the High Court Judge dismissed GOM's application to convert PSKIN's OS to a Writ action and awarded costs to PSKIN. In dismissing GOM's application, the Judge held, among others, that the termination of the Concession Agreement by expropriation is not in dispute. The only issue for the determination of the Court is the amount to be paid by GOM as a consequence of the expropriation. The Concession Agreement provides for a contractual formula to determine the amount to be paid. As such, there are no disputes of fact to warrant a trial. The Judge further directed that the hearing of PSKIN's OS and cross-examination of the deponents of affidavits (if necessary) be fixed for 1 July 2020, 2 July 2020 and 3 July 2020. Based on this development, the Group remains positive on the RM733 million contractual amount claimed against GOM based on the formula stipulated under the Concession Agreement.

Separately, PSKIN and GOM have also agreed to refer the dispute in respect of PSKIN's OS to court-annexed mediation conducted by the Kuala Lumpur Court Mediation Centre. The parties agreed that the mediation process shall proceed concurrently with the court proceedings. On 30 October 2019, representatives from PSKIN and GOM (with parties' respective Counsel) attended the first mediation session. A further mediation session between the parties will be fixed in due course.

2. The Group's negative operating cashflow of RM72,253,000 is after taking into account the increase in SKIN's trade receivable from GOM of RM175,460,000. Without SKIN's increase in trade receivable, the Group's operating cashflow would have been positive. In addition, the Group will be implementing strategic business initiatives to grow its revenue to address the going concern issues as mentioned in the Independent Auditors' Report. The Group is ideally placed to play a critical role in bringing together technology and talent for the country's manufacturing sector with the global shift towards Industry 4.0 and Malaysia's version of Industry4WRD. The Group will be able to provide end-to-end solutions in terms of talent management encompassing talent acquisition, profiling, training and placement to complement our existing software and services business.

This announcement is dated 12 November 2019.