PRESTARIANG BERHAD ("PRESTARIANG" OR THE "COMPANY")

PROPOSED PRIVATE PLACEMENT OF UP TO 10% OF THE ISSUED SHARES OF PRESTARIANG ("PROPOSED PRIVATE PLACEMENT")

*(Unless otherwise defined, the definitions set out in the announcement dated 21 January 2020 ("**Announcement**") shall apply herein.)*

We refer to the Announcement and the queries from Bursa Securities in relation to the Proposed Private Placement. M&A Securities on behalf of the Board wishes to provide additional information in relation to the Proposed Private Placement as follows:

1. From when will the utilisation of proceeds stipulated under Sections 3 of the Announcement be utilised

The proceeds are intended to be utilised within the stipulated timeframe from the date of listing of the Placement Shares.

2. What is the total amount and turnover period of trade and other payables of the Group

The Group proposes to utilise RM8.40 million of the proceeds to repay part of its trade creditors, mainly for the ICT Services and Distribution segment. As at 30 September 2019, the Group's total trade and other payables were RM78.80 million, which includes trade creditors of RM39.80 million for the Group's ICT Services and Distribution segment. The average creditors turnover period for the ICT Services and Distribution segment is 89 days. The remaining creditors' balances comprise mainly of creditors for the SKIN project that was terminated by the Government of Malaysia.

3. What is the Group's latest audited cash and bank balances and why it is not used to meet the working capital requirements stipulated under Section 3 of the Announcement

The Group's cash and cash equivalents comprise the following:

	Unaudited 30 September 2019 RM'000
Cash and bank balances	4,578
Fixed deposits with licensed banks	2,172
Less:	
Fixed deposits pledged with licensed banks	(2,172)
Total	**4,578**

The RM12.66 million of the proceeds intended for general working capital will provide additional financial resources to the Group in managing the Group's short term capital requirements on top of the cash and cash equivalents of RM4.58 million available as at 30 September 2019. These proceeds will be deployed primarily for the payment of trade creditors for the ICT Services and Distribution business which is currently the major contributor of the Group's revenue. A significant portion of the Group's equity and working capital is tied up in SKIN receivables which are the subject matter of litigation. The Group believes that this injection of equity is necessary in addition to its credit facilities to be able to ensure the smooth delivery of its products and services to its clients.

For rectification purposes, any excess or shortfall of the actual proceeds raised will only be adjusted against the utilisation of the Group's general working capital requirements and will not be adjusted against the Group's business expansion requirements as stipulated in the Announcement previously.

4. What is the compensation amount sought in the legal action taken against the Government of Malaysia ("Government") in relation to SKIN as stipulated under Section 4.1 of the Announcement

The Group is seeking compensation of RM733.0 million ("**Compensation**"). The Group has on 15 April 2019 filed and served its Originating Summons ("**OS**") against the Government to seek the Compensation. The Group remains positive that the Group will be awarded the Compensation which is based on the formula stipulated under the Concession Agreement.

Separately, PSKIN and the Government 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 ("Mediation Centre"). The parties agreed that the mediation process shall proceed concurrently with the court proceedings. On 30 October 2019, representatives from PSKIN and the Government (with parties' respective Counsel) attended the first mediation session. A further mediation session between the parties will be fixed in due course.

5. Additional information on the adequacy of the Proposed Private Placement in addressing the Company's financial concerns under Section 4.2 of the Announcement

The proceeds from the Proposed Private Placement are primarily earmarked to fund the Group's short term capital requirements to enable the Group to continue its operation without the risk of potential disruptions particularly for the Group's ICT Services and Distribution segment. This would enable the Group to continuously deliver orders to clients more efficiently and in timely manner whilst allowing the Group to focus on, amongst others, the following strategic initiatives to enhance the Group's long term business prospects and financial performance:

(a) Divestment of non-core assets;

(b) Cost-cutting measures;

(c) Collaboration with other international technology players with the primary objective to expand the Group's product and service offerings to its customers;

(d) Development and expansion of additional product and service offerings to existing customers; and

(e) Expansion of project pipeline through replication of existing projects to other relevant customers.

As at 30 September 2019, the Group's has net working capital of RM107.86 million computed as follows:

	Audited 30 June 2019 RM'000	**Unaudited 30 September 2019 RM'000**
Current Assets	234,780	239,298
Less: Current Liabilities	124,004	131,438
Net working capital	**110,776**	**107,860**

The Proposed Private Placement will allow the Group to bridge the timing differences between the collection from its trade debtors and payment to its trade creditors via equity capital instead of purely funding its additional working capital needs via debt which may be challenging and costly for the Group to obtain given the current domestic and international economic condition.

Premised on the above, the Board is of the view that the Proposed Private Placement is the most appropriate avenue of fundraising at this juncture to raise funds promptly to address the Group's short term capital adequacy and maintain a good balance between debt and equity funding of its working capital. This would, in turn, facilitate the generation of long term financial benefits to the Group in the form of stronger top line and improved margins explained in more detail below.

6. Additional information on value creation and impact of the Proposed Private Placement to the Company and its shareholders under Section 4.3 of the Announcement

The Proposed Private Placement is not expected to have any material impact on the Group's consolidated earnings for the FYE 30 June 2020. Nonetheless, the Proposed Private Placement will allow the Group to achieve the objectives stipulated under Section 5 of this announcement which in turn facilitates the value creation to the Group and shareholders. Importantly, the Proposed Private Placement will allow the Group to achieve the said objectives with less reliance on financing facilities. This will also help reduce the financial cost to the Group, which has been escalating in the recent quarters.

The proposed utilisation of RM12.66 million proceeds for the purpose of general working capital, includes, RM8.40 million of the placement proceeds to reduce the Group's trade creditor's balance of the Group's ICT Services and Distribution business. As the Group has taken a longer time in making payments to its suppliers in recent quarters, due to its limited working capital, it has slowed down the flow of supply of products by the suppliers, which in turn, affected the Group's ability to churn more orders for its clients. The repayment of trade creditors will allow the Group to obtain supply of products from its suppliers, which will allow the Group to accept additional orders from its clients. Besides, it will also reduce the risk of potential interruptions to the supply of goods and services to our Group which, in turn, will improve procurement efficiencies in the form of more favourable pricing and credit terms from its suppliers. This will facilitate the Group's plan to further strengthen its revenue and profit margin.

The proposed utilisation of RM6.00 million of the placement proceeds to repay the principal of the Group's overdraft facility with an effective interest rate of 7.95% per annum would also result in a gross interest savings of approximately RM0.48 million per annum.

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7. Commentary on the financial performance and financial position of Prestariang

The audited financial information of the Prestariang Group for the financial year ended ("**FYE**") 31 December 2016, FYE 31 December 2017, restated consolidated financial statements for the FYE 31 December 2017, the eighteen months (18)-month financial period ended ("**FPE**") FYE 30 June 2019 and the unaudited three (3)-month FPE 30 September 2019 are as follows:-

	Audited				**Unaudited**
	FYE 31 December			**FPE 30 June***	**FPE 30 September**
	2016	**2017**	**2017[(a)]**	**2019**	**2019**
	RM'000	**RM'000**	**RM'000**	**RM'000**	**RM'000**
Revenue	132,071	219,506	141,453	367,318	38,151
Cost of sales	(99,673)	(153,673)	(109,338)	(258,967)	(32,267)
Gross profit ("**GP**")	32,398	65,833	32,115	108,351	5,884
Other income	2,950	2,725	2,725	1,511	76
Administrative expenses	(21,625)	(24,136)	(24,136)	(49,325)	(7,209)
Other expenses	(1,739)	(5,956)	(5,315)	(20,895)	(674)
Finance costs	(453)	(479)	(479)	(5,365)	(942)
Net impairment losses on financial assets	-	-	(650)	(16,323)	-
Profit before tax ("**PBT**") /(Loss) before tax ("**LBT**")	11,531	37,978	4,260	17,954	(2,865)
Taxation	(2,483)	(13,408)	(6,806)	(26,911)	(136)
Profit after tax ("PAT") / (Loss) after tax("LAT")	**9,048**	**24,570**	**(2,546)**	**(8,957)**	**(3,001)**
Profit/(Loss) attributable to:					
Owners of the company	8,884	18,208	(773)	(21,753)	(3,017)
Non-controlling interests	164	6,362	(1,773)	12,796	16
GP margin (%)	*24.53*	*30.00*	*22.70*	*29.50*	*15.42*
PBT/(LBT) margin (%)	*8.73*	*17.30*	*3.01*	*4.89*	*(7.51)*
PAT/(LAT) margin (%)	*6.85*	*11.19*	*(1.80)*	*(2.44)*	*(7.87)*
Share capital	48,400	119,700	119,700	119,700	119,700
Share Premium	74,712				
Treasury shares	(2,608)	(3,366)	(3,366)	(3,366)	(3,366)
Merger deficit	(14,212)	(10,800)	(10,800)	(10,800)	(10,800)
Fair value reserve	-	-	-	(7,630)	(7,293)
Retained profits	54,749	58,482	39,501	10,534	7,517
Shareholder's equity/ NA	161,041	164,016	145,035	108,438	105,758
No. of Shares ('000)	482,678	482,302	482,302	482,302	482,302
NA per Share	0.33	0.34	0.30	0.22	0.22
Total borrowings	382	22,854	22,854	63,521	62,558
Gearing (times)	Negligible	0.14	0.16	0.59	0.59

Notes:

* The Group has changed its financial year-end from 31 December to 31 March on 3 Dec 2018 and from 31 March to 30 June on 28 February 2019 effective from the financial period ended 30 June 2019. The change in financial year end was in line with the ongoing negotiations for compensation arising from the SKIN project.

(a) During the FPE 30 June 2019, Prestariang has adopted MFRS 15 and restated its accounts for the FYE 31 December 2017. The impact on the accounts for the FYE 31 December 2017 is as follows:-

 (i) The revenue recognition in respect the SKIN project in FYE 31 December 2017 was deferred to FPE 30 June 2019 based on the SKIN agreement effective date; and

 (ii) the cost incurred in relation to the revenue mentioned in (i) above was also correspondingly deferred from FYE 31 December 2017 and recognised in FPE 30 June 2019.

FYE 31 December 2016

For FYE 31 December 2016, the Group's revenue improved by 14.36% to RM132.07 from RM115.48 million in FYE 31 December 2015. The improved results were due to the following:-

(a) the Group's ICT Services and Distribution segment revenue increased by 33.24% to RM125.21 million (2015: RM93.97 million). This is mainly due to the full-year recognition of the Master Licensing Agreement 2.0 ("**MLA 2.0**") entered between the Group and Ministry of Finance in 2015 and was implemented in 2016; and

(b) the Group's employment services segment saw an increase of more than 100% or RM3.98 million in revenue from RM0.32 million to RM4.30 million in FYE 31 December 2016. This is mainly due to the recognition of revenue from a joint venture undertaken for foreign workers management services.

The Group recorded profit after tax of RM9.05 million for the FYE 31 December 2016, which was lower by 46.86% as compared to FYE 31 December 2015 (RM17.03 million). The drop in the Group's gross margins to 24.53% in FYE 31 December 2016 (2015: 33.45%), was mainly due to the ICT Services and Distribution segment revenue mix for the year that include higher sales of lower margin – software and services, which were up by 27.00% and lesser sales from higher margin – training and certification services, which were down by 61.00%.

The depreciation of ringgit against US Dollars, that translated to higher cost of sales for software and services segment and deferments of some higher margin projects in Education segment also contributed to the lower profit after tax in FYE 2016.

Additionally, in FYE 31 December 2016, there was an absence of various one-off transactions, such as dividend income, fair value gain, foreign exchange gain and gain on disposal of assets that were recorded in the prior financial year.

FYE 31 December 2017 (before restatement)

For FYE 31 December 2017, the Group's revenue increased by 66.21% from RM132.07 million to RM219.51 million, primarily due to the following:-

(a) the Group recognised its first revenue from the SKIN project amounting to RM78.05 million (2016: nil);

(b) the Group's ICT Services and Distribution segment saw its revenue increased by RM4.66million to RM129.87 million, representing a 3.59% increase (2016: RM125.21 million), backed by the growth in MLA 2.0 projects and the distribution of Autodesk licences to local education institutions. In addition, the Group commenced the distribution of Adobe Creative Cloud Software and Services software via a contract awarded by the Ministry of Higher Education in November 2017;

(c) the Group's education segmental revenue increased by 140.47% or RM6.18 million in FYE 31 December 2017 (2016: RM2.57 million) due to the on-going operational and branding revamp undertaken for University Malaysia of Computer Science and Engineering, which saw an increase in student enrolment exceeding 100% during the year; and

(d) the Group's employment services segment continues to see an increase in revenue as the segment provided human resource services to workers for the Refinery & Petrochemicals Integrated Development (RAPID), which peaked in 2017 and 2018. The segment recorded revenue of RM5.40 million, higher by 25.6% in FYE 2017 (2016: RM4.30 million).

For FYE 2017, the Group recorded a profit after tax of RM24.57 million, an increase of 171.49% compared to the FYE 31 December 2016 of RM9.05 million. This was mainly due to improved sales and better margins derived from the SKIN project. However, the improvement was moderated by a one-off impairment loss of development cost amounting to RM3.50 million and an increase in staff cost to RM25.13 million against RM16.54 million a year earlier.

Restated FYE 31 December 2017

In FYE 31 June 2019, the Group adopted MFRS 15, and restated its FYE 31 December 2017 accounts. The major impact to the Group's consolidated financial statements for the FYE 31 December 2017, were as follows:-

(a) deferment of RM78.05 million of revenue recognised for the SKIN project from FYE 31 December 2017 to FYE 30 June 2019 based on the concession agreement effective date; and

(b) recognition of costs of RM44.3 million incurred in relation to the SKIN project was also correspondingly deferred from FYE 31 December 2017 and recognised in FYE 30 June 2019.

The above caused the restated revenue for FYE December 2017 to be lower at RM141.45 million as compared to the revenue of RM219.51 million before the reinstatement. Correspondingly, this resulted in the restated loss after tax of RM2.55 million as compared to the profit after tax of RM24.57 million before restatement.

FPE 30 June 2019

For the 18-months FPE 30 June 2019, the Group reported revenue of RM367.32 million, an increase of 160% compared to the restated FYE 31 December 2017 of RM141.45 million or an increase in revenue of 73.12% or RM103.43 million on annualised basis mainly due to the following:-

(a) recognition of RM175.45 million revenue from the SKIN project during the FYE 30 June 2019 (FYE 2017: nil);

(b) increase in revenue of 222.23% for the Group's employment services segment to RM17.40 million or RM11.60 million or 114.81% on annualised basis for the FYE 30 June 2019 (restated 2017: RM5.40 million). The significant increase was mainly due increase in the number of workers managed as the RAPID project activities reached its peak in 2018.

For FPE 30 June 2019 the Group recorded loss after tax of RM8.96 million or RM5.97 million on annualised basis. This annualised loss after tax of RM5.97 million was 134.12% more than the loss after tax for FYE 31 December 2017 of RM2.55 million. The higher loss was mainly due to material provisions made for impairment of trade receivables, development costs, fixed costs and others, in compliance with the relevant MFRS amounting to RM28.37 million and one-off tax penalties resulted from tax audit conducted by Lembaga Hasil Dalam Negeri for FYE 2011 to FYE 2016 amounting to RM2.00 million.

FPE 30 September 2019

For the unaudited 3-month FPE 30 September 2019, the Group reported revenue of RM38.15 million, primarily due to the following:-

(a) the Group's ICT Services and Distribution segment recorded revenue of RM34.93 million. This was mainly derived from the execution of contracts within the Master Licensing Agreement 3.0 with the Government, where the Group is the distributor for Microsoft Licensing Solutions to public sector agencies;

(b) the Group's education and employment services segment recorded revenue of RM1.76 million and RM1.46 million respectively. These were mainly derived from the billings for student enrolment for the education segment and foreign workers management services for the employment services segment; and

(c) there was no revenue contribution from the SKIN project the financial quarter due to its termination effective from February 2019.

Since the Group has changed its financial year-end to 30th June, there are no comparative figures available for the preceding period ended on 30 September 2018 for comparison.

The Group recorded a loss after tax of RM3.00 million for FPE 30 September 2019. This was mainly due to significant sales delivery of one of the product lines that carry lower margin during the quarter which effectively pulled down the overall profit for the FPE 30 September 2019. The recorded loss after tax was also contributed by loss from the education segment mainly due to lower student's enrolment and higher operating costs i.e. campus rental.

This announcement is dated 18 February 2020.