ASTAKA HOLDINGS

ASTAKA HOLDINGS LIMITED
(Company Registration No.: 200814792H)
(Incorporated in the Republic of Singapore)

EMPHASIS OF MATTER ON THE AUDITED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019

In compliance with Rule 704(4) of the Singapore Exchange Securities Trading Limited Listing Manual Section B: Rules of the Catalist ("**Catalist Rules**"), the Board of Directors (the "**Board**") of Astaka Holdings Limited (the "**Company**" and together with its subsidiaries, the "**Group**") wishes to inform shareholders that the independent auditors of the Company, KPMG LLP (the "**Independent Auditors**"), have included an emphasis of matter in the Independent Auditors' Report on the audited financial statements of the Group for the financial year ended 30 June 2019 (the "**Financial Statements**") in respect of (i) a material uncertainty related to the Group's ability to continue as a going concern and (ii) uncertainties related to the pending outcome of an independent review undertaken by an external reviewer in relation to the circumstances leading to an adjustment in the prior year.

The opinion of the Independent Auditors remains unqualified.

A copy of the Independent Auditors' Report together with the extract of the relevant note to the Financial Statements are annexed to this announcement. Shareholders of the Company are advised to read the Financial Statements in its annual report for the financial year ended 30 June 2019, which will be despatched in due course.

Shareholders of the Company are advised to exercise caution when dealing in the shares of the Company. Shareholders of the Company should note that there is no certainty or assurance that the shares of the Company will eventually resume trading on the SGX-ST. Shareholders of the Company are advised to read all further announcements by the Company carefully and to consult their stockbrokers, bank managers, solicitors or other professional advisers if they have any doubt about the actions they should take.

BY ORDER OF THE BOARD

Dato' Zamani Bin Kasim
Executive Director and Chief Executive Officer

6 January 2020

This announcement has been prepared by the Company and reviewed by the sponsor, Novus Corporate Finance Pte. Ltd. (the "Sponsor"), in compliance with Rule 226(2)(b) of the Singapore Exchange Securities Trading Limited (the "SGX-ST") Listing Manual Section B: Rules of Catalist.

The contact person for the Sponsor is Mr Pong Chen Yih, Chief Operating Officer, at 9 Raffles Place, #17-05 Republic Plaza Tower 1, Singapore 048619, telephone (65) 6950 2188.

Independent auditors' report

Members of the Company
Astaka Holdings Limited

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Astaka Holdings Limited ("the Company") and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position of the Group and the statement of financial position of the Company as at 30 June 2019, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group for the year then ended, and notes to the financial statements, including a summary of significant accounting policies as set out on pages FS1 to FS68.

In our opinion, the accompanying consolidated financial statements of the Group and the statement of financial position of the Company are drawn up in accordance with the provisions of the Companies Act, Chapter 50 ("the Act") and Singapore Financial Reporting Standards (International) ('SFRS(I)s') so as to give a true and fair view of the consolidated financial position of the Group and the financial position of the Company as at 30 June 2019 and of the consolidated financial performance, consolidated changes in equity and consolidated cash flows of the Group for the year ended on that date.

Basis for opinion

We conducted our audit in accordance with Singapore Standards on Auditing ("SSAs"). Our responsibilities under those standards are further described in the "*Auditors' responsibilities for the audit of the financial statements"* section of our report. We are independent of the Group in accordance with the Accounting and Corporate Regulatory Authority *Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities* ("ACRA Code") together with the ethical requirements that are relevant to our audit of the financial statements in Singapore, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the ACRA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter – Uncertainties related to pending outcome of independent review

We draw attention to Note 3.1 (A)(ii) to the consolidated financial statements. On 5 September 2019, the board of directors announced the appointment of an external reviewer to perform an independent review to look into the circumstances leading to the prior year adjustment as stated in Note 3.1(A)(ii), which include, amongst others, identifying any lapses or weaknesses in internal and financial reporting controls and procedures, breaches in applicable rules, laws and regulations, and making recommendations on remedial measures to be taken by the Group. As at the date of this report, the independent reviewer's work is still ongoing and has not been concluded, and the outcome of the independent review could provide new information or findings. As a result of the pending outcome of the independent review, uncertainties exist and as such, may have a consequential impact on the consolidated financial statements. Our opinion is not modified in respect of this matter.

Material uncertainty related to going concern

We draw attention to Note 2 to the consolidated financial statements which indicates that the Group incurred a net loss of RM113.7 million for the year ended 30 June 2019, and as of that date, the Group recorded development properties amounting to RM400.7 million, representing the completed properties held for sale and future phases of land to be developed. As stated in Note 2, the directors of the Company have considered the slowdown in the property market in Malaysia, which has impacted on the sale of development properties of the Group. In the event that the Group is unable to sell its completed properties and launch its new projects as planned, the Group may not be able to generate sufficient operating cash flows for the next twelve months to cover its operating costs and settle its current liabilities, which include settling the remaining outstanding balances of RM74,379,000 (inclusive of interests) pursuant to a settlement agreement entered with the main contractor of a project by 30 June 2020. This indicates that a material uncertainty exists that may cast significant doubt on the ability of the Group and the Company to continue as a going concern. Our opinion is not modified in respect of this matter.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in *Material Uncertainty Related to Going Concern* section of our report, we have determined the matters described below to be communicated in our report.

Recognition of revenue and cost of sales for sales of development properties, and completeness of trade and other payables

(Refer to Note 4.11, Note 8 and Note 19 to the consolidated financial statements)

RISK:

The Group enters into contracts with customers to deliver specified building units to the customers based on the plans and specifications as set out in the contracts. In accordance with SFRS(I) 15 *Revenue from Contracts with Customers*, the analysis of whether the contracts comprise one or more performance obligations, determining whether the performance obligations are satisfied over time or at a point in time, the method used to measure progress for revenue recognition where performance obligations are satisfied over time and estimated variable consideration included in the transaction price represent areas requiring critical judgement and estimates by the Group.

For contracts where revenue is recognised over time, the Group measures its work progress by reference to the construction costs incurred to date to the estimated total construction costs, including contingencies and variation orders, which are highly judgemental. Any changes in these estimates could result in material variance in revenue recognised and the recognition for the provision of rectification costs and liquidated damages.

There is a broad range of possible outcomes resulting from these judgements that could lead to different revenue, costs and profit being reported in the consolidated financial statements.

OUR RESPONSE:

We evaluated the Group's processes over revenue recognition for sales of development properties and assessed the basis for the identification of performance obligations. We also read the sales and purchase agreements of development properties and discussed each of the developments with management to obtain an understanding of the specific terms so as to identify performance obligations. Also, we assessed whether the criteria are met for recognising revenue over time or at a point in time of revenue recognition.

We assessed the appropriateness of methods and amounts used to measure the progress of the construction of specified building units by reference to construction costs incurred to date compared to the estimated total construction costs where the performance obligation is satisfied over time.

We assessed the adequacy of the estimated total construction costs by comparing them with the actual costs incurred to-date and discussed with management on the progress of the projects, taking into consideration of any significant deviation in design plans or potential delays. We also reviewed management's assessment of the estimated costs to complete the projects and the probability of further costs to be incurred arising from the progress of the projects. For works that have been contracted to third party contractors, we agreed to the underlying contracts. For construction costs incurred to date, we tested the significant items of cost components by vouching to the supporting documents pertaining to the claims from main contractors to ascertain the existence and accuracy of the costs of work done. We also held discussion with the quantity surveyors and external main contractors on the work done to date, and status of the outstanding claims to be submitted.

We assessed the appropriateness of assumptions used to measure the variable consideration, which includes rebates, discounts, transaction costs borne by the Group and liquidated damages included in the transaction price by comparing the supporting documents pertaining to rebates and discounts granted by the Group. For transaction costs borne by the Group, we discussed with management, taking into consideration the historical costs borne by the Group. For liquidated damages, we compared the actual delivery date of the property developments against the promised delivery date as well as penalty terms in the contracts.

OUR FINDINGS:

We found the basis and result for the identification of performance obligations and the assessment of whether the identified performance obligations are satisfied over time or at a point in time by the Group to be appropriate. We also found the point of revenue recognition applied by the Group to be consistent with the revenue recognition criteria set out.

We found the method used to recognise revenue from the delivery of specified building units to be consistent with the transfer of control of the units to the customers.

We found the estimated total construction costs and costs of work performed to date for the projects to be reasonable.

We found the estimated variable consideration included in the transaction price to be reasonable.

Valuation of development properties and contract costs

(Refer to Note 4.6, Note 8 and Note 9 to the consolidated financial statements)

RISK:

The Group has residential and commercial development properties held for sale in its core market, Malaysia. Development properties are stated at the lower of their cost and their net realisable values. Net realisable value represents the estimated future selling price, less estimated costs of completion and selling expenses.

The estimated future selling prices is dependent on the Group's expectation of the market development in Malaysia. There is therefore a risk that the estimated net realisable value exceeds the future actual selling prices, resulting in losses when these properties are sold.

The Group assessed the net realisable value of development properties and recoverable amounts of contract costs, based on the estimated selling prices, future costs to complete the projects and development plans of the Group, taking into consideration available industry data, status of construction progress, deviation in design plans, cost overruns and current market factors.

For land to be developed, the Group has assessed the net realisable value of the proposed development, based on valuation obtained from an independent external valuer. Significant judgement and estimates are involved in determining the appropriate valuation methods and assumptions applied in the valuation.

OUR RESPONSE:

For development properties and contract costs, we assessed the reasonableness of the Group's estimated selling prices by comparing them with recent transacted selling prices of the development properties.

For land to be developed, we evaluated the independence, objectivity and competency of the independent external valuer. We considered the valuation methodologies used and assessed the reasonableness of the key assumptions used by the independent external valuer, which included a comparison of the discount rates, and price per square metre, against historical rates and available market data, taking into consideration comparable and market factors.

OUR FINDINGS:

We found the Group's assumptions used in the estimated selling prices to be within the market's expectation and the estimated construction costs to complete the projects to be reasonable.

We are satisfied with the competency, capability and objectivity of the independent external valuer. The valuer is a member of generally-recognised professional bodies for valuers. The valuation methodologies used by the valuer are in line with generally accepted market practices and comparable to methods used for similar property types. The key assumptions used in the valuations were found to be reasonable, and where available, consistent with current market data.

Impairment of investment in subsidiaries

(Refer to Note 4.5 and Note 6 to the consolidated financial statements)

RISK:

Management assessed the recoverable amount of the investment in subsidiaries based on the estimated cash flows generated from the sale of development properties and proposed development projects to be undertaken by the subsidiaries.

For estimated cash flows generated from the sale of development properties and future phases to be developed, the Company has assessed the estimated selling prices, future costs to complete the projects and development plans of the Group, taking into consideration available industry data, status of construction progress, deviation in design plans, cost overruns and current market factors.

For estimated cash flows generated from the land to be developed, the Company has assessed based on valuation obtained from an independent external valuer. Significant judgement and estimates are involved in determining the appropriate valuation methods and assumptions applied in the valuation.

OUR RESPONSE:

For estimated cash flows generated from the sale of development properties and future phases to be developed, we assessed the reasonableness of the Group's estimated selling prices by comparing them with recent transacted selling prices of the development properties.

For estimated cash flows generated from the land to be developed, we evaluated the independence, objectivity and competency of the independent external valuer. We considered the valuation methodologies used and assessed the reasonableness of the key assumptions used by the independent external valuer, which included a comparison of the discount rates, and price per square metre, against historical rates and available market data, taking into consideration comparable and market factors.

OUR FINDINGS:

For estimated cash flows generated from the sale of development properties and future phases to be developed, we found the Group's assumptions used in the estimated selling prices to be within the market's expectation and the estimated construction costs to complete the projects to be reasonable.

For estimated cash flows generated from the land to be developed, we are satisfied with the competency, capability and objectivity of the independent external valuer. The valuer is a member of generally-recognised professional bodies for valuers. The valuation methodologies used by the valuer are in line with generally accepted market practices and comparable to methods used for similar property types. The key assumptions used in the valuations were found to be reasonable, and where available, consistent with current market data.

Other information

Management is responsible for the other information contained in the annual report. Other information is defined as all information in the annual report other than the financial statements and our auditors' report thereon.

We have obtained all other information prior to the date of this auditors' report.

Our opinion on the financial statements 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, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and directors for the financial statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Act and SFRS(I)s, and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair financial statements and to maintain accountability of assets.

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The directors' responsibilities include overseeing the Group's financial reporting process.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements 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 SSAs 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.

As part of an audit in accordance with SSAs, 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, 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 controls.

- Obtain an understanding of internal controls 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 Group's internal controls.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management’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 Group’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 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 Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors’ report unless the law or regulations preclude public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

In our opinion, the accounting and other records required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.

The engagement partner on the audit resulting in this independent auditors’ report is Teo Han Jo.

KPMG LLP
Public Accountants and
Chartered Accountants

Singapore
6 January 2020

EXTRACT OF NOTE 2 TO THE AUDITED FINANCIAL STATEMENTS OF THE GROUP FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019

2. Going concern

The Group incurred a net loss of RM113.7 million for the year ended 30 June 2019 and, as of that date, the Group recorded development properties amounting to RM400.7 million, representing the completed properties held for sale and future phases of land to be developed. Due to the slowdown in the property market in Malaysia, the Group may not be able to generate sufficient operating cash flows for the next twelve months to cover its operating costs and settle its current liabilities.

Notwithstanding the above, the financial statements have been prepared on a going concern basis. To support the financial statements having been prepared on going concern basis and to ensure the adequacy of funds required to meet the Group's obligations and working capital needs, the Group has prepared a 18-month consolidated cash flow forecast from 1 July 2019. In preparing the 18-month consolidated cash flow forecast, the Group exercised judgement and made certain key assumptions including the followings:

(i) The Group has reached a settlement agreement with the main contractor of a project on 1 October 2019 to settle the remaining outstanding balances of RM74,379,000 (inclusive of interests) in instalments until 30 June 2020. Following the execution of the settlement agreement, the main contractor has issued a letter of withdrawal to the Group confirming the withdrawal of its claim of RM125,347,303 and all demands and claims that it had made against the Group.

(ii) The Group is able to sell its completed properties and launch the new projects as planned during the forecast period.

The above matters represent a material uncertainty that may cast a significant doubt on the ability of the Group and the Company to continue as a going concern and therefore, the Group and the Company may not be able to realise their assets and discharge their liabilities in the normal course of business. However, taking into consideration that the controlling shareholder of the Company has undertaken to provide the necessary financial support to the Group to enable it to continue its operation and to pay its debts as and when they fall due, the directors of the Company believe that the Group and the Company will be able to continue operations in the foreseeable future, and that the preparation of the accompanying consolidated financial statements on a going concern is appropriate.