**MMAG HOLDINGS BERHAD ("MMAG" or "THE COMPANY") - ISSUANCE OF UNMODIFIED AUDIT OPINION WITH STATEMENT OF MATERIAL UNCERTAINTY RELATING TO GOING CONCERN IN RESPECT OF MMAG'S AUDITED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 MARCH 2023**

Pursuant to Rule 9.19(38) of the ACE Market Listing Requirements of Bursa Malaysia Securities Berhad, the Board of Directors of MMAG wishes to announce that the Company's external auditors, Messrs Grant Thornton Malaysia PLT, has included a statement of material uncertainty relating to going concern in its Independent Auditors' Report dated 31 July 2023, in respect of the Group's financial statements for the financial year ended 31 March 2023.

**A. DETAILS OF THE MATERIAL UNCERTAINTY RELATED TO GOING CONCERN DISCLOSED IN THE INDEPENDENT AUDITORS' REPORT AND NOTE 2 TO THE FINANCIAL STATEMENTS**

The details of the Material Uncertainty Related to Going Concern as disclosed in the Independent Auditors' Report is reproduced below:-

***Material uncertainty related to going concern***

We draw attention to Note 2 to the Financial Statements which indicates that the Group incurred a net loss of RM89,392,204 during the financial year and as at 31 March 2023, the total current liabilities of the Group exceeded its total current assets by RM56,863,285. These events or conditions indicate the existence of a material uncertainty which may cast doubt about the Group's ability to continue as going concern. The ability of the Group to continue as a going concern is dependent on (i) the attaining future profitable operations of the Group; (ii) the utilisation of proceeds upon completion of proposed right issue of new shares; and (iii) the unutilised credit facilities provided by non-trade payables. If these are not forthcoming, the Group may be unable to realise their assets and discharge their liabilities in the normal course of business. Our opinion is not modified in respect of this matter.

**B. KEY AUDIT MATTERS DISCLOSED IN THE INDEPENDENT AUDITORS' REPORT TO THE FINANCIAL STATEMENTS**

The key audit matters as disclosed in the Independent Auditors' Report is reproduced below:-

***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 Group and of the Company for the current financial year. These matters were addressed in the context of our audit of the financial statements of the Group and of the Company 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 the Material Uncertainty Related to Going Concern section, we have determined the matters described below to be the key audit matters to be communicated in our report.

**Group**

*Goodwill on consolidation*

***The risk*** – The Group is required to test annually the amount of goodwill for impairment. The impairment testing relies on estimates of value-in-use based on estimated future cash flows.

*Key Audit Matters (cont'd)*

**Group (cont'd)**

The annual impairment test of goodwill is significant to our audit because the assessment process used in preparing the estimated future cash flows is complex and highly judgmental and is based on assumptions that are affected by expected future market or economic conditions.

***Our response –*** Our audit procedures included, amongst others, evaluating the assumptions and methodologies used by the Group, in particular those relating to the forecasted revenue growth, expenses and profit margins. We have checked for additional impairment triggers by reading Board's minutes' holdings regular discussions with management and examining the performance of each cash generating unit.

When evaluating and challenging the key assumptions used by management in conducting the impairment review, we using our valuation specialists to independently develop expectations for the key macro-economic assumptions used in the impairment analysis, in particular the discount rate and long-term growth rate, and comparing the independent expectations to those used by management; challenging the cash flow forecasts used; with comparison to recent performance, trend analysis and market expectations; and by reference to prior years' forecasts, where relevant, assessing whether the Group has achieved them.

We also focused on adequacy of the Group's disclosures about those assumptions to which the outcome of the impairment test is most sensitive, that is, those that have the most significant effect on the determination of the recoverable amount of goodwill.

The Group's disclosures about goodwill are included in Note 12 to the Financial Statements.

*Assessing impairment of property, plant and equipment and right-of-use assets*

***The risk –*** The carrying amount of the Group's property, plant and equipment and right-of-use assets might exceed their recoverable amounts and therefore the carrying amount had to be impaired. The recoverable amount is the higher of an asset's fair value less costs of disposal and its value in use.

We identified the aforesaid carrying amount of the property, plant and equipment and right-of-use assets as a key audit matter because of the significance of the carrying amount of such assets to the consolidated financial statements and because the fair value provided by external valuer and/or discounted cash flow projections used for the purpose of impairment assessments involves identifying assets which are unlikely to be deployed in economic service in the future, and estimating future cash flows, growth rates and discount rates, which are subject to a significant degree of judgement and could be subject to management bias.

***Our response*** – Our audit procedures to assess the impairment of property, plant and equipment and right-of-use assets included the following:-

*Key Audit Matters (cont'd)*

**Group (cont'd)**

- discussed indicators of impairment of property, plant and equipment and right-of-use assets with management, and for Cash Generating Units ("CGUs") where such indicators were identified and CGUs with goodwill, assessed whether management had performed impairment testing in accordance with the requirements of the prevailing accounting standards;
- involved our internal valuation specialists to assess the methodology and significant assumptions including discount rates adopted by management in its impairment assessments;
- evaluated the external valuer on his competence, capabilities and objectivity and obtained an understanding of the valuation model used;
- evaluated the assumptions adopted in the preparation of the discounted cash flow forecasts, including projected future growth rates for income and expenses and discount rates with reference to our understanding of the business, historical trends and available industry information and market data; and
- performed sensitivity analyses on the key assumptions, including projected profitability, expected growth rates and discount rates adopted in the discounted cash flow forecasts and assessed whether there were any indicators of management bias in the selection of these assumptions.

The Group's disclosures about property, plant and equipment and right-of-use assets are included in Notes 5 and 6 to the Financial Statements.

*Impairment loss of trade and other receivables*

***The risk*** – In accordance with the impairment requirements under MFRS 9, the management is required to apply forward-looking approach in assessing the impairment of trade and other receivables. Broader range of information is considered including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cashflows of trade and other receivables are applied to calculate the expected credit losses using a provision matrix.

We identified impairment of trade and other receivables as a significant risk requiring special audit consideration. This is because the Group's trade and other receivables are material to the financial statements.

***Our response*** – In addressing this area of focus, we assessed the validity of material receivables by obtaining third-party confirmations of amounts owing. We also considered payments received subsequent to year-end, past payment history and unusual patterns to identify potentially impaired balances. To address the risk of management bias, we evaluated the results of our procedures against audit procedures on other key balances to assess whether or not there was an indication of bias.

The assessment of the appropriateness of the provision for trade receivables comprised a variety of audit procedures across the Group including:-

*Key Audit Matters (cont'd)*

**Group (cont'd)**

- Challenging the appropriateness and reasonableness of the assumptions applied in the assessment of the receivables allowance;
- Consideration and concurrence of the agreed payment terms;
- Verification of receipts from trade receivables subsequent to year-end; and
- Considered the completeness and accuracy of the disclosures.

The Group's disclosures regarding impairment of trade and other receivables are included in Notes 4.7.1, 15, 16 and 33 to the Financial Statements.

*Right-of-use assets and lease liabilities*

***The risk*** – Due to the nature in courier, air cargo and logistic business, the Group has numerous of lease contracts, right-of-use assets and lease liabilities have been identified and recognised in the financial statements. MFRS 16 Leases is regarded as key audit matter because it involved large volume of data in preparing the leases schedule by the management and also required significant estimations and judgements made by the management which includes determination of lease term, discount rate, lease options and others measurement principles.

***Our response*** – In addressing this area of focus, we have obtained an understanding and reviewed the process of preparation of the leases schedule with recalculation performed to ensure mechanical accuracy of leases schedule provided. We also tested the accuracy of the information stated in leases schedule by sighting to lease contracts and assessed the accounting treatment to ensure the compliance with the requirements of MFRS 16 including the appropriateness of the estimations and judgements made by the management.

The Group's disclosures about right-of-use assets and lease liabilities are included in Note 6 to the Financial Statements.

**Company**

*Investment in subsidiaries and amount due from subsidiaries*

***The risk*** – Significant judgements are required by the Directors in assessing the impairment and the recoverability of the investment in subsidiaries and amount due from subsidiaries. This is based on the value-in-use, using cash flow projections, covering a five-year period for each CGU. The assumptions with the most significant judgement on the cash flow projections are growth rates and profit margins.

***Our response*** – In addition to other procedures, we considered it necessary to test the design and implementation of the key controls around the impairment review process. We have performed substantive procedures and challenged the key assumptions include future growth rates and the profit margins applied. In addition, we have tested the reasonably possible changes in the key assumptions on which management has based its determination of the CGUs recoverable amount that may cause the CGUs carrying amount exceed its recoverable amount. We also compared projected cash flow against historical performance to test the reasonableness of the projections.

The Company's disclosures about Investment in subsidiaries and amount due from subsidiaries are included in Notes 8.1 and 8.2 to the Financial Statements.

## C. STEPS TAKEN OR PROPOSED TO BE TAKEN TO ADDRESS THOSE KEY AUDIT MATTERS THAT RELATE TO THE MATERIAL UNCERTAINTY RELATED TO GOING CONCERN

The Material Uncertainty Related to Going Concern highlighted in the Independent Auditors' Report was mainly due to the unfavourable financial results and deteriorated financial position arising from the impairment of trade receivables and property, plant and equipment over the past few years.

(a) The Group believes that it will continue to enjoy the existing credit facilities granted by the banks and financing companies as it has not defaulted in any repayment obligations for the financial year. Furthermore, as part of its rationalization plan, the Group has taken measures to improve its cash flows position by implementing cost rationalisation exercise throughout the Group as well as disposal of its non-current assets (other investments).

(b) In addition, the Company is also in the midst to undertake a proposed rights issue of up to 1,453,434,942 new shares at an issue price of RM0.10 per right shares together with up to 726,717,471 free detachable warrants in the Company on the basis of 1 warrant for every 2 right shares subscribed ("Proposed Rights Issue") which allows the Company to raise sizeable funds to strengthen the Group's financial position.

(c) In terms of trade receivables, the Group has strengthened its credit control department for its courier businesses and slowly diversifying to prepaid customers. As for its Air Freight business, the business model comprises predominantly prepaid customers.

(d) The Group has also been undertaking various initiatives to improve the Group's financial performance and strengthen its financial position such as adoption of technology and increase network connectivity to improve the efficiency and speed of delivery as well as develop new products to drive customer growth.

(e) In view of the above, barring any other unforeseen circumstances, management believes that, with the implementation of the rationalisation plan and the existing credit lines granted by the banks and financing companies, as well as the continued financial support from profitable subsidiaries and the impending Proposed Rights Issue, the Group will be able to generate sufficient cash flows to meet its obligations and working capital needs for the next financial year. Accordingly, the financial statements of the Group have been prepared on the going concern basis.

## D. TIMELINE

Barring any unforeseen circumstances, the Company expects to resolve the abovementioned issues relating to the Material Uncertainty Related to Going Concern in the subsequent financial year.

This announcement is dated 14 August 2023.