

Subject	GENERAL ANNOUNCEMENT
Description	EMPHASIS OF MATTER IN THE INDEPENDENT REPORT FOR THE FINANCIAL STATEMENTS OF SEALINK INTERNATIONAL BERHAD FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

INTRODUCTION

Pursuant to paragraph 9.19(37) of Bursa Malaysia Securities Berhad Main Market Listing Requirements, the Board of Directors of Sealink International Berhad (“the Company”) wishes to announce that the Company’s Independent Auditors, Messrs. Ernst & Young PLT has included an emphasis of matter on the existence of an uncertainty which may cast doubt about the Company’s ability to continue as a going concern in view of the current economic conditions and the Covid-19 pandemic in the Auditors’ Report for the financial statements of the Company for the financial year ended 31 December 2019.

EMPHASIS OF MATTER BY INDEPENDENT AUDITORS

“We draw attention to Note 2.1.1 to the financial statements. This Note indicates that the Group incurred a gross loss of RM9,125,893 (2018: RM17,049,219) and a net loss of RM36,693,585 (2018: RM20,416,205) during the year ended 31 December 2019 and as at that date, the net current liabilities of the Group was RM40,907,087 (2018: RM32,619,449). This Note further indicates that the Group’s and the Company’s business operations have been impacted by the current depressed economic conditions in the offshore marine sector and subsequent to year end, may be impacted by the COVID-19 (Corona) virus pandemic. These events or conditions indicate the existence of a material uncertainty which may cast significant doubt about the Group’s and the Company’s ability to continue as a going concern. The ability of the Group and of the Company to continue as a going concern is dependent on the success of future operations of the Group and of the Company, and the continuing support of their bankers, creditors and a major shareholder of the Company. The major shareholder has given an undertaking to provide adequate funding to the Group and to the Company as and when required for at least the next twelve months from the reporting date so as to enable the Group and the Company to meet their obligations as and when they fall due. Our opinion is not modified in respect of this matter.”

(A) ALL KEY AUDIT MATTERS DISCLOSED IN THE INDEPENDENT AUDITORS’ REPORT

“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 year. These matters were addressed in the context of our audit of the financial statements of the Group as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditors’ responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis of our audit opinion on the accompanying financial statements.

Recoverability of carrying amounts of vessels

In view of the depressed economic conditions in the offshore marine sector, the Group performed an assessment on the recoverable amount of the vessels stated at RM367,855,848 as at 31 December 2019 which represented 72.86% of the Group's total assets, to determine whether the carrying value of these vessels are recoverable.

The estimated recoverable amount is determined based on the higher of an asset's value in use ("VIU") or fair value less costs to sell ("FV"). The recoverable amount was compared to the carrying value of each asset with identified impairment triggers. If the recoverable amount is lower, the carrying value of the asset is reduced to its estimated recoverable amount and the difference is regarded as an impairment loss.

The Group considered each vessel as a cash-generating unit ("CGU"). Value in use is the present value of the future cash flows expected to be derived from the CGU. The FV represents an estimate of the amount received in the event the vessel is sold on a willing buyer and a willing seller basis. The FV on the vessels were based on valuation by an independent valuer.

Based on the outcome of the impairment assessment, no impairment loss is recognised in the statements of profit or loss and other comprehensive income as the recoverable amount of the vessels are higher than the carrying amount.

The impairment assessment of the vessels are significant to our audit due to its magnitude and the use of significant judgement in determining the recoverable amount. Our audit procedures included evaluating management assessment of impairment indicators for vessels. We also evaluated the competence, capabilities and objectivity of the external valuer and obtained an understanding of the valuation model used by him. We compared the valuation with recent transactions of the Group involving other similar vessels. In addition, we evaluated the adequacy of the Group's disclosures regarding the impairment of these vessels as disclosed in Note 2.17, Note 3(b) and Note 13 to the financial statements.

Impairment of investments in subsidiaries

The Company considered the internal and external indicators of impairment in relation to the investments in subsidiaries as at year end and noted that out of the total carrying amount of investments in subsidiaries of RM370,745,537, the aggregate carrying amount of investments of five subsidiaries with a total carrying amount of RM101,888,000 have indications that the carrying amounts may be impaired.

For investments that have indication of impairment, the Company performed an impairment assessment to determine the recoverable amounts of the respective investments. The recoverable amount is the higher of an asset's fair value less costs of disposal and its value in use.

We identified the impairment assessment as an area of focus as the impairment assessment is complex and highly judgmental and the magnitude of the amount involved. It involves assessment of possible variations in the amounts and timing of future cash flows based on assumptions affected by future market and economic conditions. Judgement is also applied in determining an appropriate discount rate to determine the present value of future cash flows.

In addressing this area of audit focus, we performed, amongst others, the following procedures:

- (i) We evaluated the competence, capabilities and objectivity of the external valuer used and obtained an understanding of the methodology and the valuation model used by the valuer;
- (ii) We obtained an understanding of the methodology adopted by the management in estimating the value in use and evaluated the methodology applied;
- (iii) We assessed the key assumptions used, focusing on projected revenue, profit margins, growth rates and terminal value, taking into consideration the current and expected future economic conditions. We compared the key assumptions against past actual outcomes;
- (iv) We assessed the discount rate used and whether the rate used reflects the current market assessments of the time value of money and the risks specific to the asset is the return that investors would require if they were to choose an investment that would generate cash flows of amounts, timing and risk profile equivalent to those that the entity expects to derive from the asset; and
- (v) We assessed the sensitivity of the cash flows to changes in the discount rates and key assumptions.

Information other than the financial statements and auditors' report thereon

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements of the Group and of the Company and our auditors' report thereon.

Our opinion on the financial statements of the Group and of the Company 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 Group and of the Company, 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 Group and of the Company 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."

(B) STEPS TAKEN OR PROPOSED TO BE TAKEN TO ADDRESS THOSE KEY AUDIT MATTERS THAT RELATE TO THE MODIFIED OPINION OR MATERIAL UNCERTAINTY RELATED TO GOING CONCERN

Notwithstanding the above, none of the Key Audit Matters is about going concern.

(C) THE TIMELINE FOR THE STEPS REFERRED TO IN SUB-PARAGRAPH (B) ABOVE

No plan is required as it is not applicable.

This announcement is dated 28 May 2020.