PACIFIC RADIANCE LTD.
COMPANY REGISTRATION NO. 200609894C

ANNOUNCEMENT PURSUANT TO RULE 704(5) OF THE SINGAPORE EXCHANGE SECURITIES TRADING LIMITED ("SGX-ST") LISTING MANUAL (THE "LISTING MANUAL")

Pursuant to Rule 704(5) of the Listing Manual of the SGX-ST, the board of directors (the "Board") of Pacific Radiance Ltd. (the "Company", and together with its subsidiaries, the "Group") wishes to announce that the Company's independent auditor, Ernst & Young LLP, had included a qualified opinion in the Independent Auditor's Report on the financial statements for the financial year ended 31 December 2022 ("FY2022").

An extract of the Independent Auditor's Report is set out as below:-

"Qualified Opinion

We have audited the accompanying financial statements of Pacific Radiance Ltd. (the "Company") and its subsidiaries (collectively, the "Group"), which comprise the balance sheets of the Group and the Company as at 31 December 2022, the statements of changes in equity of the Group and the Company and the consolidated income statement, consolidated statement of comprehensive income and consolidated cash flow statement of the Group for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effects of the matters described in the Basis for Qualified Opinion section, the accompanying financial statements are properly drawn up in accordance with the provisions of the Singapore Companies Act 1967 (the "Act") and Singapore Financial Reporting Standards in Singapore (International) ("SFRS(I)") 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 31 December 2022 and of the consolidated financial performance, consolidated changes in equity and consolidated cash flows of the Group and changes in equity of the Company for the reporting year ended on that date.

Basis for Qualified Opinion

<u>Sale of vessels</u>

As disclosed in Note 9, the Consensual Sale Agreement involved a total of 33 vessels, of which 28 vessels were owned by the Group's subsidiaries and 5 vessels were owned by the joint venture and associate companies, resulting in a total consensual discharge of approximately US$200 million of loans and borrowings owed by the Group's subsidiaries.

As at 31 December 2021, prior to the Group classifying the 28 vessels owned by the Group's subsidiaries as non-current assets held for sale, the Group performed an impairment assessment of the disposal group which comprised the 33 vessels. The recoverable amount, which was based on the fair value less cost of disposal, was measured on the basis of the consensual discharge of approximately US$200 million. Notwithstanding that the Consensual Sale Agreement was integral to and part of the Debt Restructuring Plan and included other components in the Debt Restructuring Plan, management had determined the fair value of the vessels as at 31 December 2021 was US$200 million based on the consensual discharge amount. We had included this in our basis for disclaimer opinion on the financial statements for the year ended 31 December 2021 as we were not able to determine whether management's assessment of fair value less cost of disposal of the vessels was in accordance with SFRS (I) 13 Fair value measurement.

For the year ended 31 December 2022, the Group recognised a gain on sale of the 28 vessels held by the Group's subsidiaries upon the completion of the Consensual Sale Agreement of US$17,022,000. This was included in the other operating income under discontinued operations. A corresponding disposal loss was attributed to the 5 vessels held by the joint ventures and associates but were unrecognised by the Group due to capping of losses from equity accounting as disclosed in Note 13 and 14. The Group has no obligation in respect of these losses. Also as disclosed in Note 22, the Group had previously deferred the gain on sale of 5 vessels to joint venture and associate companies to the extent of the Group's interests. Upon the sale of vessels held by the joint venture and associate companies this year, the deferred gain was derecognised and the Group recognised a gain on disposal of the vessels of US$1,509,000 and US$4,603,000 as the Group's share of results from the joint venture and associated companies. This is reported under discontinued operation's share of results from joint venture and associate companies.

Given that we were not able to determine whether management's assessment of the fair value less cost of disposal of the vessels as at 31 December 2021 was in accordance with SFRS(I) 13 Fair Value Measurement, we are unable to determine if any adjustments are required in respect of the gain on the sale of vessels recognised, as any misstatement in the fair value less cost of disposal of the vessels as at 31 December 2021 would result in corresponding misstatement in the current financial year determination of the gain on sale of vessels. Our opinion on the current period's financial statements is also modified because of the possible effect of this matter on the comparability of current period's figures and the corresponding figures.

<u>Finance costs and gain on debt settlement of bank loans</u>

As disclosed in Note 3, the Group did not receive continuing updates from bank lenders regarding the computation of interest expenses post suspension of certain debt obligations and has had to make its own assumptions in determining the finance costs, carrying amounts of accrued interest payables and bank loans to be recorded in the financial statements. In verifying the bank loan liabilities as at 31 December 2021, we did not receive independent bank confirmations from some of the banks and were not able to obtain sufficient information to verify the reconciling differences against the confirmation reply from one bank. The Group had concluded that the carrying amount of the bank loan liabilities remained reasonable and appropriate based on the contractual terms of the loan facilities.

For the year ended 31 December 2022, the Group continued to make its own assumptions in determining the finance costs for the qualifying period during the year until the completion of the Debt Restructuring Plan. As further disclosed in Note 5b, the Group has recognised a gain on debt forgiveness of bank loan of US$269,126,000 and net gain on restructuring from settlement of liabilities of US$52,360,000, which includes the accrued finance costs.

We were unable to obtain sufficient appropriate audit evidence to determine whether the bank loan liabilities and the associated accrued interest payables are appropriately stated as at 31 December 2021. Accordingly, this was included in our basis for disclaimer opinion on the financial statements for the year ended 31 December 2021. Similarly, for the year ended 31 December 2022, we are not able to obtain sufficient audit evidence on whether the bank loan liabilities and the interest accrued for the period and the resulting gain on debt forgiveness of the bank loan and settlement of liabilities were appropriately stated. This is because, any misstatement in bank loan liabilities and associated accrued interest payables as at 31 December 2021 would result in corresponding misstatement in the current financial year determination of the gain on debt settlement. Neither were we able to conduct any alternative procedures to determine if any adjustments are required.

We conducted our audit in accordance with Singapore Standards on Auditing ("SSAs"). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report. We are independent of the Group in accordance with the Accounting and Corporate Regulatory Authority ("ACRA") 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 qualified opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements of the current period. In addition to the matters described in the Basis for Qualified Opinion section, we have determined the matter described below to be key audit matters to be communicated in our report. These matters were addressed in the context of the audit of the financial statements as a whole, and in forming the auditor's opinion thereon, and we do not provide a separate opinion on these matters. For the matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's 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 for our audit opinion on the accompanying financial statements.

Debt restructuring and going concern assessment

As disclosed more fully in Note 2.1, the Group completed its Debt Restructuring Plan during 2022 and has recognised gain arising from debt restructuring of about US$343,151,000. Post the Debt Restructuring Plan, the Group and Company is in a net current asset of about US$26,479,000 and US$22,275,000 respectively as at 31 December 2022. Matters relating to the gain arising from debt restructuring are included in the Basis for Qualified Opinion above.

As part of the Debt Restructuring Plan, the Group has entered into ship management agreements to manage the majority of the Sale Vessels. Included in the ship management agreements is a condition that the Group has to remain a going concern and the PRL Key Management (as defined in Note 2.1) has to remain in control of the Company. The Company has also issued various securities such as new shares (Note 31a), perpetual securities (Note 30), shareholder and management warrants (Note 29). On these basis, the consolidated financial statements of the Group and Company as at 31 December 2022 have been prepared on a going concern basis. Management's evaluation of the liquidity and the viability of the business model of the Group moving forward and the use of the going concern assumption involves significant Management judgement and estimation uncertainties, including but not limited to forecast of future profitability and cash flows, future economic and market conditions relevant to the business model post the Debt Restructuring Plan. Consequently, we have considered this to be a key audit matter.

As part of our audit, we reviewed Management's cash flow forecast based on financial budgets prepared and approved by Management and evaluated the reasonableness of key assumptions and inputs used, including but not limited to profit margins and cash collections by comparing to historical information and observed trends. We evaluated the robustness of management's budgeting process by comparing the actual results to forecasted results and performed sensitivity analyses on key assumptions for alternative reasonably possible scenarios to assess the Group's ability to meet its payment obligations in the next 12 months from the date of the auditor's report. We also reviewed the relevant disclosures provided in the aforementioned notes to the financial statements.

Other information

Management is responsible for the other information. The other information comprises the information included in the Annual Report, but does not include the financial statements and our auditor's report thereon.

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 Singapore Companies Act 1967 (the "Act") and the Singapore Financial Reporting Standards in Singapore (International) ("SFRS(I)"), 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 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.

Auditor's 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 auditor's 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 judgment and maintain professional skepticism throughout the audit. We also:

a) Identify and assess the risks of material misstatement of the consolidated 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 control.

b) Obtain an understanding of internal control 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 control.

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

d) 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 auditor's report to the related disclosures in the consolidated 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 auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

e) 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.

f) 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 control 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 to 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 auditor's report unless law or regulation precludes 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 and by those subsidiaries incorporated in Singapore of which we are the auditors have been properly kept in accordance with the provisions of the Act.

The engagement partner on the audit resulting in this independent auditor's report is Alvin Phua."

By Order of the Board of
Pacific Radiance Ltd.

Pang Yoke Min
Executive Chairman

12 April 2023