PACIFIC STAR DEVELOPMENT LIMITED

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Business Reg. No: 198203779D

DISCLAIMER OF OPINION BY THE INDEPENDENT AUDITORS ON THE AUDITED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2022

Pursuant to Rule 704(4) of the Listing Manual Section B: Rules of Catalist (the "**Catalist Rules**") of the Singapore Exchange Securities Trading Limited (the "**SGX-ST**"), the Board of Directors (the "**Board**") of Pacific Star Development Limited (the "**Company**", and together with its subsidiaries, the "**Group**") wishes to announce that the Company's Independent Auditors, Ernst & Young LLP, has included a disclaimer of opinion (the **"Disclaimer of Opinion**") in respect of the going concern assumptions of the Group and Company and the Group's and the Company's classifications of certain non-current liabilities and a non-current asset associated with the non-compliance of a loan covenant (as defined in Note 20(a) to the audited consolidated financial statements) in their Independent Auditors' Report dated 15 December 2022 (the "**Independent Auditors' Report**") in relation to the audited consolidated financial statements of the Group and the Company for the financial year ended 30 June 2022 ("**FY2022**") (the "**Financial Statements**").

A copy of the Independent Auditors' Report is attached to this announcement for information.

The Independent Auditors' Report and a complete set of the Financial Statements will also be contained in the Company's Annual Report for FY2022 ("**FY2022 Annual Report**"), which will be released on SGXNet on or about the date of this announcement. Shareholders of the Company are advised to read this announcement in conjunction with the FY2022 Annual Report.

An extract of the Note 2.1 and Note 20(a)(i) of the Financial Statements pertaining to the Group's and Company's going concern assumptions and the rationale of the classification of OCP-TPG Loan (as defined in Note 20(a) of the Financial Statement) respectively are attached to this announcement for information in relation to the Disclaimer of Opinion.

The shares of the Company have been suspended from trading on the SGX-ST since 24 March 2020.

Shareholders of the Company are advised to exercise caution when dealing in the shares of the Company. Persons who are in doubt as to the action they should take should consult their stockbrokers, bank managers, solicitors, accountants or other professional advisers.

On behalf of the Board of Directors of
PACIFIC STAR DEVELOPMENT LIMITED

Ying Wei Hsein
Executive Chairman
15 December 2022

INDEPENDENT AUDITOR'S REPORT

To the Members of Pacific Star Development Limited

Report on the Audit of the Financial Statements

Disclaimer of Opinion

We were engaged to audit the financial statements of Pacific Star Development Limited (the "**Company**") and its subsidiaries (collectively, the "**Group**"), which comprise the balance sheets of the Group and the Company as at 30 June 2022, the statements of changes in equity of the Group and the Company and the consolidated statement of comprehensive income and consolidated statement of cash flows of the Group for the year then ended, notes to the financial statements, including a summary of significant accounting policies.

We do not express an opinion on the accompanying financial statements of the Group and the balance sheet and the statement of changes in equity of the Company. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

Basis for Disclaimer of Opinion

<u>Use of the going concern assumption</u>

The Group's results for the financial year were adversely affected by the continuing challenges affecting the property market in Johor, Malaysia and incurred a net loss of $50,305,000. The Group generated negative operating cash flows of $26,765,000 during the financial year. As at 30 June 2022, the Group and Company are in net liability positions of $129,381,000 and $16,870,000 respectively. The Group's current assets mainly comprise development properties amounting to $122,684,000 as at 30 June 2022. The Group's total loans and borrowings includes $230,173,000 as non-current liabilities, and the Company's total loans and borrowings includes $4,398,000 as non-current liabilities of which the Group and Company do not have unconditional right to defer settlement for at least twelve (12) months after the reporting period due to non-compliance of covenant but continue to be classified as non-current liabilities as at 30 June 2022. Such loans and borrowing, for which the Group and Company do not have unconditional right to defer settlement for at least twelve (12) months after the reporting period, should be classified as current liabilities as required by Singapore Financial Reporting Standards (International) ("**SFRS(I)**") 1-1 Presentation of Financial Statements.

These factors, the continuing challenges faced by the Group in selling its development properties and increasing level on cost of indebtedness, give rise to material uncertainties on the abilities of the Group and Company to continue as going concerns.

These financial statements have been prepared on going concern bases based on the assumptions as disclosed in Note 2.1 to the financial statements. However, we are unable to obtain sufficient appropriate evidence to conclude whether it is appropriate to use the going concern assumption to prepare these financial statements as the outcome of the Group's and Company's plans to address their liquidity challenges cannot be reasonably determined at this time and the ability of the Group to realise its development properties as planned is uncertain.

The carrying value of the assets as recorded on the balance sheets of the Group and Company as at 30 June 2022 has been determined based on the continuation as going concerns and recovery in the normal course of business. If the going concern assumption is not appropriate and the financial statements were presented on a realisation basis, the carrying value of assets and liabilities may be materially different from that currently recorded in the balance sheets. If the Group and Company were unable to continue in operational existence for the foreseeable future, the Group and Company may be unable to discharge their liabilities in the normal course of business and adjustments may have to be made to reflect the situation that assets may need to be realised other than in the normal course of business and at amounts which could differ significantly from the amounts at which they are currently recorded in the balance sheets.

Report on the Audit of the Financial Statements (cont'd)

Basis for Disclaimer of Opinion (cont'd)

Classification of loans and borrowings and associated withholding tax payable, and certain intercompany balances

As at 30 June 2022, the Group has classified loans of $230,173,000 and the associated withholding tax payable of $3,072,000 as non-current liabilities, which the Group's loans and borrowings do not have unconditional right to defer settlement for at least twelve (12) months after the reporting period due to non-compliance of covenant, as disclosed in Note 20(a)(i) and 22 respectively to the financial statements. No waiver was obtained from the lenders as at the reporting period, and accordingly the loans and borrowings become payable on demand and the Group does not have unconditional right to defer settlement of the liabilities for at least twelve (12) months after the reporting period.

As at 30 June 2022, the Company has similarly classified loans and borrowings of $4,398,000 as non-current liabilities of which the Company does not have unconditional right to defer settlement for at least twelve (12) months after the reporting period due to non-compliance of covenant as disclosed in Note 20(a)(i) to the financial statements. The Company has also classified amount due from subsidiaries of $3,345,000 included in other receivables and other assets, and amount due to subsidiaries of $15,324,000 included in other payables as disclosed in Note 17 and 22 respectively to the financial statements as non-current assets and non-current liabilities respectively notwithstanding that the intercompany amounts are subordinated to the certain loans and borrowings of the Group.

Accordingly, classifying the abovementioned amounts and loans and borrowing as non-current assets and non-current liabilities respectively of the Group and Company are not in compliance with SFRS(I) 1-1 Presentation of Financial Statements which require such items to be classified, as applicable, as current assets or current liabilities.

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 Companies Act 1967 (the "**Act**") and 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 and Company's abilities to continue as a going concerns, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group and/or the Company or to cease operations, or has no realistic alternative but to do so.

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

INDEPENDENT AUDITOR'S REPORT

To the Members of Pacific Star Development Limited

Report on the Audit of the Financial Statements (cont'd)

Responsibilities of Auditor for the Audit of the Financial Statements

Our responsibility is to conduct the audit of the financial statements in accordance with Singapore Standards on Auditing ("**SSAs**") and to issue an auditor's report. However, because of the matters described in the Basis of Disclaimer of Opinion section of our report, we were unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

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.

Report on Other Legal and Regulatory Requirements

In our opinion, in view of the significance of the matters referred to in the Basis for Disclaimer of Opinion section of our report, we do not express an opinion on whether the accounting and other records required by the Act to be kept by the Company and by the subsidiary 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 Low Yen Mei.

Ernst & Young LLP
Public Accountants and
Chartered Accountants
Singapore

15 December 2022

2. Summary of significant accounting policies

2.1 Basis of preparation

The consolidated financial statements of the Group and the balance sheet and statement of changes in equity of the Company have been prepared in accordance with Singapore Financial Reporting Standards (International) ("**SFRS(I)**").

The financial statements have been prepared on a historical cost basis except as disclosed in the accounting policies below.

The financial statements are presented in Singapore Dollars (SGD or $) and all values are rounded to the nearest thousand ($'000), except when otherwise indicated.

Going concern assumption

The Group's results for the financial year ended 30 June 2022 were adversely affected by the weak property market in Iskandar and high finance costs. The Group incurred a net loss of $50,305,000. As at 30 June 2022, the Group's capital deficiency amounted to $129,381,000 and the Group's loans and borrowings amounted to $232,698,000, of which $2,525,000 were classified as current liabilities. The Group's current assets of $128,481,000 mainly comprise development properties amounting to $122,684,000 as at 30 June 2022.

The Company incurred a net loss of $1,321,000 for the financial year ended 30 June 2022. As at 30 June 2022, the Company's current liabilities exceeded its current assets by $493,000 and its capital deficiency amounted to $16,870,000.

The above factors and the challenging property market conditions in Iskandar could adversely impact the sale of the Group's development properties and give rise to material uncertainties on the abilities of the Group and the Company to continue as going concerns.

In the assessment of going concern, the Board of Directors of the Company (the "**Board**") has considered the following factors:

The ability of the Company to operate as a going concern is dependent on:

(i) its ability to obtain financing to meet its near-term obligations;

(ii) the sale of the Group's unsold units at Puteri Cove Residences and Quayside ("**PCR**") and the timely repatriation of such profits; and

(iii) the going concern of the Group.

2. Summary of significant accounting policies (cont'd)

2.1 Basis of preparation (cont'd)

Going concern assumption (cont'd)

In the assessment of the Group's going concern, the Board has considered the following factors:

(i) the Russia-Ukraine war, global supply chain disruptions, inflationary pressure and recent significant interest rate hikes and the depreciation of the Malaysian Ringgit against the Singapore Dollar;

(ii) the Group is in various stages of discussions with various parties in relation to the sale of significant numbers of units in PCR;

(iii) the Group's cash flow requirements for the next twelve (12) months; and

(iv) although the Lenders (Note 20(a)) are not in a position to provide a waiver of the Non-Compliance Of LTV (Note 20(a)(i)), they remain supportive of the Group and continue to engage in constructive discussions with the Group.

The Board considered the above and concluded that:

(a) although Singapore and Malaysia have re-opened their borders, the improvement in business sentiment and economic recovery are still at a nascent stage. Hence, the crystallisation of such discussions as presented in item (ii) above may be delayed. Despite the Group's best efforts, the fruition of such measures as described in item (ii) above is uncertain and not within the control of the Group;

(b) the sale of units in PCR to individual buyers has not recovered to pre-COVID-19 levels;

(c) currently, there are still uncertainties as whether new variants of COVID-19 will emerge and how various governments' plans to co-exist with COVID-19 will pan out; and

(d) there are increased macroeconomic concerns with the ongoing Russia-Ukraine war, global inflation worries, interest rate hikes, depreciation of the Malaysian Ringgit against the Singapore Dollar and supply chain disruptions which could weigh down on any post-COVID-19 recovery.

Based on current circumstances, there is uncertainty as to whether the Group and the Company are able to meet their contractual obligations in the next twelve (12) months as and when they fall due. Consequently, there is uncertainty as to their respective abilities to operate as going concerns for the next twelve (12) months. Notwithstanding the above, the Board has assessed and is of the view that it is appropriate that the financial statements of the Group and the Company be prepared on a going concern basis.

If the Group and the Company are unable to continue in operational existence for the foreseeable future, the Group and the Company may be unable to discharge their liabilities in the normal course of business and adjustments may have to be made to reflect the situation that assets may need to be realised other than in the normal course of business and at amounts which could differ significantly from the amounts at which they are currently recorded in the balance sheets. In addition, the Group and the Company may have to reclassify non-current assets and liabilities as current assets and liabilities respectively (collectively referred to herein as the "**Adjustments**").

Presently, due to the uncertainties involved, management is unable to quantify the Adjustments (if any are required). Hence, no adjustments have been made to the balances presented in the balance sheets of the Group and the Company to account for the Adjustments.

20. Loans and borrowings (cont'd)

Certain reclassifications have been made to balances as at 30 June 2021 to conform to the presentation adopted in the current financial year. Please refer to Note 33.

(a) Loans from a group of lenders

OCP-TPG Loan and OCP-PDD Loan from a group of lenders (the "**Lenders**") are collectively referred to herein as "**Loans From Lenders**". Details of which are as follow:

(i) OCP-TPG Loan

Twin Prosperity Group Ltd. ("**TPG**"), a wholly-owned subsidiary of the Group, had entered into a loan facility agreement of $70 million (the "**Original OCP-TPG Loan**") with the Lenders on 24 December 2018 (the "**Original FA**"). Pursuant to an amendment agreement to the Original FA dated and announced on 30 June 2021, there was a $2 million increase in the Original OCP-TPG Loan (the "**Loan Increment**") to $72 million (30 June 2021: $72 million) (the "**OCP-TPG Loan**").

The Loan Increment was applied towards the working capital requirements of the Company and its subsidiaries outside of Malaysia.

As at 30 June 2021, the Group had breached the following covenants relating to the OCP-TPG Loan:

- Mr Chan Fook Kheong's ("**Mr Chan**") resignation as Chief Executive Officer and Managing Director of the Company on 18 March 2020 and his subsequent bankruptcy order constituted a change of control pursuant to the terms of the OCP-TPG Loan (the "**Change of Control**"). Upon the occurrence of such a Change of Control, the Lenders are entitled to immediately require the mandatory prepayment of the OCP-TPG Loan, together with accrued interest, and all other amounts accrued under the finance documents relating to the OCP-TPG Loan;

- the trading of the Company's shares on the SGX-ST has been voluntarily suspended since 24 March 2020. Pursuant to terms of the OCP-TPG Loan, in the event that the trading halt of the Company's shares on the SGX-ST continues for a period of five (5) consecutive market days or days which would have been market days but for the closure of, or general suspension of trading of shares on, the SGX-ST (the "**Trading Disruption**"), this would constitute an event of default under the OCP-TPG Loan and the Lenders would have the right to accelerate the OCP-TPG Loan and declare all or part of the OCP-TPG Loan, together with accrued interest, and all other amounts accrued or outstanding under the finance documents relating to the OCP-TPG Loan immediately due and payable;

- the OCP-TPG Loan includes, amongst others, certain sales covenants relating to achieving a minimum number of sales every quarter in PCR (the "**Sales Covenants**"). The Group was not able to meet the Sales Covenants for the period of March 2020 to 30 September 2021;

20. Loans and borrowings (cont'd)

(a) Loans from a group of lenders (cont'd)

(i) OCP-TPG Loan (cont'd)

As at 30 June 2021, the Group had breached the following covenants relating to the OCP-TPG Loan (cont'd):

- maintenance of a DSRA with $5.25 million balance (the "**DSRA Covenant**"), though the Lenders had agreed to the utilisation of the DSRA previously maintained to be applied to payment of interest on the OCP-TPG Loan. As at 30 June 2021, the Group had not met the DSRA Covenant. As such, the Lenders are entitled to immediately require the mandatory prepayment of the OCP-TPG Loan, together with accrued interest, and all other amounts accrued under the finance documents relating to the OCP-TPG Loan; and

- the OCP-TPG Loan mandated the sale of Tower 3 of PCR by 30 June 2020 (the "**T3 Covenant**") but due to the COVID-19 pandemic, the T3 Covenant was not met,

(collectively referred to herein as the "**Breaches**").

On 14 October 2021, the Company announced that in connection with the OCP-PDD Loan to be provided by the Lenders to Pearl Discovery Development Sdn. Bhd. ("**PDD**"), a wholly-owned subsidiary of the Group, it was necessary for the Group to restructure the Original OCP-TPG Loan. Hence, in relation to the Original FA, TPG and the parties to the Original FA have agreed to further amend and restate the Original FA. These amendments and restatements have been documented by way an amendment and restatement agreement dated 1 October 2021 (the "**Amendment**") (the Original FA as amended and restated by the Amendment, referred to herein as the "**Amended FA**").

The Amended FA, amongst others:

- put into effect relevant amendments to the Original FA to facilitate PDD's entry into the OCP-PDD Loan;

- amended the OCP-TPG Loan maturity date (originally being 28 December 2020) to 5 October 2023, or if earlier, coterminous with the maturity date of PDD's Facility A (Note 20(b)); and

- upon the date of taking effect of the Amended FA (subject to the satisfaction of conditions precedent customary of a transaction of this nature) (the "**Amendment Effective Date**"), the Lenders waived each and every default, including the Breaches, in respect of the Original FA which had occurred prior to the Amendment Effective Date.

The condition precedents relating to the Amended FA and the OCP-PDD Loan were satisfied and the Amendment Effective Date had been determined to be 29 October 2021.

The maturity date of the OCP-TPG Loan is on 5 October 2023 (30 June 2021: repayable on demand with the original maturity date on 28 December 2020) and the OCP-TPG Loan has been fully drawn down as at 30 June 2022 (30 June 2021: $2 million undrawn).

As at 30 June 2022, the OCP-TPG Loan, denominated in Singapore Dollars, bears interest at 25% per annum compounded at the end of every calendar quarter and capitalised to the outstanding principal amount.

20. Loans and borrowings (cont'd)

(a) Loans from a group of lenders (cont'd)

(i) OCP-TPG Loan (cont'd)

As at 30 June 2021, the OCP-TPG Loan (excluding the Loan Increment), denominated in Singapore Dollars, on an aggregate basis, bore simple interest and compound interest at 7.5% per annum and 5.0% per annum respectively. Further, the OCP-TPG Loan stipulated a profit distribution arrangement, wherein a fixed sum of $3.50 million and a variable sum of 12.5% of the distributions to the Group from PCR will be payable to the Lenders.

As at 30 June 2021, the Loan Increment bears interest at 25% per annum compounded at the end of every calendar quarter and capitalised to the outstanding principal amount.

As at 30 June 2021, the Loan Increment was undrawn.

The OCP-TPG Loan (30 June 2021: the Original OCP-TPG Loan) is secured by the following:

(i) assignment of intra-company loans owed to the Group for the purposes of PCR and a condominium development project in Bangkok, Thailand known as Posh 12 ("**P12**") which is held through the Group's joint venture and associate;

(ii) assignment of development management agreements relating to PCR and P12;

(iii) corporate guarantees by and debentures over the Company, and its wholly-owned subsidiary, PSD Singapore Pte. Ltd. ("**PSDS**") and wholly-owned subsidiaries of PSDS, namely TPG and Tropical Sunrise Development Inc. ("**TSD**"); and

(iv) share charges over shares of the Company's subsidiary, PSDS, and wholly-owned subsidiaries of PSDS, namely; TPG, TSD, PDD, and the Group's joint venture (MHL as defined in Note 25) and the Group's associate (PSDT as defined in Note 26).

As at 30 June 2022, the loan-to-value ratio of the OCP-TPG Loan has exceeded the requisite ratio under the Loan-To-Value ("**LTV**") covenant under the OCP-TPG Loan (the "**Non-Compliance Of LTV**"). If the Lenders call this as a default by requesting TPG to effect the remedy actions as provided in the OCP-TPG Loan and if TPG is not able to complete such remedy actions, it may constitute a cross default vis-a-vis other borrowings of the Group and the Company such as Facility A, CH Biovest Loan (I) and (II), DB2 Loan and the Other Third Parties Loans. At its initiative, the management of the Group had discussed with the Lenders the abovementioned issue, and the Lenders understand the position of the Group.

Although the Lenders are not in a position to provide a waiver to the Non-Compliance of LTV, they remain supportive of the Group and continue to engage in constructive discussions with the Group. Hence, as at the date of this set of financial statements, the Lenders have not called a default on this matter. The Company will make the necessary announcement(s) if there are any material updates on the matter.

Despite the Non-Compliance Of LTV, the OCP-TPG Loan as well as the other loans and borrowings of the Group and the Company amounting to $230,173,000 and $4,398,000 respectively continue to be classified as non-current liabilities instead of current liabilities as the Lenders have not called a default and based on regular dealings with the Lenders, management is of the opinion that such loans and borrowings, including the OCP-TPG Loan, should continue to be classified as non-current liabilities to best reflect the commercial realities and supportive stance of the Lenders.