

**PAVILLON HOLDINGS LTD.**

(Company Registration No.199905141N)

(Incorporated in the Republic of Singapore)

---

**KEY AUDIT MATTER ON AUDITED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021**

---

The Board of Directors (the “**Board**”) of Pavillon Holdings Ltd. (the “**Company**”, together with its subsidiaries, the “**Group**”) wishes to announce that the Company’s independent auditor, Nexia TS Public Accounting Corporation has included in **Key Audit Matters** an item relating to Going concern **assumption** in their report (the “**Independent Auditor’s Report**”) on the audited financial statements of the Group for the financial year ended 31 December 2021 (“**FY2021**”) (the “**Audited Financial Statements**”).

The Independent Auditor’s Report sets out, *inter alia*, the bases for the Board’s opinion that the Group will be able to continue as a going concern, are reproduced below for information purposes. The Independent Auditor’s Report and the Audited Financial Statements (which includes Note 2.1 to the financial statements) will form part of the Company’s Annual Report for FY2021 (the “**FY2021 Annual Report**”) which will be released to the shareholders of the Company in due course. Shareholders are advised to read the Audited Financial Statements and the FY2021 Annual Report in their entirety.

**Relevant Extracts from the Independent Auditor’s Report on the Audit of the Financial Statements**

**(1) Going concern assumption**

**Area of focus**

The Group’s wholly-owned subsidiary corporation, Pavillon Financing Leasing Co., Ltd (“PFL”) and together with the major shareholder of an associated company, Fengchi IOT Management Co., Ltd. (“Fengchi IOT”) have issued a joint and several corporate guarantee to a bank for the bank loan of Fengchi IOT and to a creditor of Fengchi IOT for the amount due in respect of the construction of the logistic hub in Tianjin, People’s Republic of China amounting to S\$60,621,000 and S\$35,508,000 (2020: S\$56,827,000 and S\$Nil) respectively.

As at 31 December 2021, Fengchi IOT’s current liabilities amounted to S\$42,310,000, including borrowings of S\$6,272,000 and trade and other payables of S\$35,508,000, whilst Fengchi IOT’s current assets amounted to S\$5,870,000, including unrestricted cash and cash equivalents amounted to S\$1,323,000 may be insufficient to fulfil these obligations at the relevant repayment dates.

Notwithstanding the above mentioned, the Directors of the Company believe that the use of the going concern assumption in the preparation of the financial statements for the financial year ended 31 December 2021 is appropriate after taking into consideration the following measures and assumptions:

- 1) On 9 March 2022, the Company has entered into a Subscription Agreement with New Development Hotel Management Pte. Ltd. (the “Subscriber”), where it is agreed that, the Company shall allot and issue, and the Subscriber shall subscribe for S\$42,935,961, in principal amount of new ordinary shares in the Company. The Proposed Subscription will be subject to several conditions stipulated in the Subscription Agreement and regulatory and shareholder’s approval. The Company is in the midst of obtaining approval from the regulatory and will be seeking the shareholders’ approval via an Extraordinary General Meeting to be convened by the Company. As agreed in the subscription agreement, the proceeds of S\$42,935,961 shall be used to fund the operations of Fengchi IOT, including but not limited to the payment of bank borrowings and creditors of Fengchi IOT;
- 2) Fengchi IOT’s bank loan is secured by (i) the properties of a major shareholder of Fengchi IOT, (ii) the investment properties of Fengchi IOT, and (iii) corporate guaranteed by the major shareholder of Fengchi IOT and PFL. The valuation of the properties secured for the bank loan is sufficient to cover the bank borrowings of Fengchi IOT;
- 3) The Group’s food and beverages operations, being one of the core operations of the Group, are unaffected by any default of Fengchi IOT;
- 4) As at 31 December 2021, the Group is in net current assets and net assets position of S\$2,198,000 and S\$14,858,000 respectively, including cash and cash equivalents of S\$6,791,000 and financial assets, at FVOCI of S\$4,162,000 which are readily available for use and can be realised immediately as and when required;
- 5) The Directors of the Company has implemented the voluntary salary reductions which led to 10% reduction in directors’ remuneration for the financial period from 1 March 2022 to 30 September 2022. The Directors of the Company will continue to review the situations towards the end of December 2022 on the need for any further extension or adjustments on such measures; and
- 6) Based on a 12-month projection, the Group will have sufficient cash flow to meet the operating requirements, assuming the completion of the transactions under the subscription agreement.

We focused on this area because of the level of subjectivity associated with the assumptions applied in the assessment of the going concern of the Group that is required to be made by the Director of the Company, including expectations of future events that are believed to be reasonable under the circumstances.

Additionally, the Board (i) is of the opinion that sufficient information has been disclosed for trading of the Company's securities to continue in an orderly manner; and (ii) confirmed that all material disclosures have been provided for trading of the Company's shares to continue.

The Board wishes to advise shareholders and investors of the Company to exercise caution when dealing in the shares of the Company. In the event of any doubt, they should consult their stockbrokers, bank managers, solicitors, accountants or other professional advisers.

BY ORDER OF THE BOARD

Lee Tong Soon  
Managing Director  
1 April 2022