

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 2020

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, have included a disclaimer of opinion (the "**Disclaimer of Opinion**") in respect of the Group's going concern assumption in their Independent Auditors' Report dated 14 January 2021 (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 2020 ("**FY2020**") (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 FY2020 ("**FY2020 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 FY2020 Annual Report.

An extract of the Note 2.1 of the Financial Statements pertaining to the Group's and Company's going concern assumption is also 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
14 January 2021

This announcement has been reviewed by the Company's Sponsor, SAC Capital Private Limited (the "Sponsor").

This announcement has not been examined or approved by the Singapore Exchange Securities Trading Limited (the "SGX-ST") and the SGX-ST assumes no responsibility for the contents of this announcement including the correctness of any of the statements or opinions made or reports contained in this announcement.

The contact person for the Sponsor is Mr. David Yeong, SAC Capital Private Limited at 1 Robinson Road, #21-00 AIA Tower, Singapore 048542. Telephone number: +65 6232 3210.

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 2020, 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 matter 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

Use of the going concern assumption

As at 30 June 2020, the Group's loans and borrowings amounted to \$137,320,000, of which \$96,224,000 were classified as current liabilities and as at that date, the Group is in net liability position of \$47,189,000. The Group's current assets of \$147,166,000 mainly comprise development properties amounting to \$135,236,000 as at 30 June 2020. The Company incurred a net loss of \$37,598,000 during the financial year ended 30 June 2020 and as at that date, the Company's current liabilities exceeded its current assets by \$14,330,000. The Group's results for the year were adversely affected by the challenging conditions affecting the property market in Johor, Malaysia and incurred a net loss of \$57,212,000. These factors and the continuing challenges faced by the Group in selling its development properties give rise to material uncertainties on the ability of the Group and Company to continue as going concern.

The financial statements have been prepared on going concern basis 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 plan to address its 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 2020 has been determined based on the continuation as a going concern 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 sheet. 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 its 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 sheet.

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, Chapter 50 (the Act) and Singapore Financial Reporting Standards (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.

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 Group and Company's financial statements in accordance with Singapore Standards on Auditing ("SSAs") and to issue an auditor's report. However, because of the matter 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.

Report on Other Legal and Regulatory Requirements

Considering insufficient information available in respect of the appropriateness of the going concern assumption of the Group and the Company, 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 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 Ong Beng Lee Ken.

Ernst & Young LLP
Public Accountants and
Chartered Accountants
Singapore

14 January 2021

2. Summary of significant accounting policies

Going concern assumption

The Group's results for the financial year ended 30 June 2020 were adversely affected by the weak property market in Iskandar, Malaysia and incurred a net loss of \$57,212,000. As at 30 June 2020, the Group's capital deficiency amounted to \$47,189,000 and the Group's loans and borrowings amounted to \$137,320,000, of which \$96,224,000 were classified as current liabilities. The Group's current assets of \$147,166,000 mainly comprise development properties amounting to \$135,236,000 as at 30 June 2020.

The Company incurred a net loss of \$37,598,000 for the financial year ended 30 June 2020 and as at that date, the Company's current liabilities exceeded its current assets by \$14,330,000. The Company's current liabilities of \$17,688,000 as at 30 June 2020, comprise mainly \$3,651,000 due to PSD Holdings Pte. Ltd. (the "**Amount Due To PSDH**") which is subordinated to the \$70,000,000 Loan Facility provided by a group of lenders (the "**Loan Facility**") and \$13,235,000 due to subsidiaries (the "**Due To Subsidiaries**").

The above factors and the challenging property market condition in Iskandar, Malaysia, could adversely impact the sale of the Group's development properties and give rise to material uncertainties on the ability of the Group and Company to continue as going concern.

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

- (i) The sale of the Group's unsold units at Puteri Cove Residences located in Iskandar Puteri, Malaysia ("**PCR**") and the timely repatriation of such profits;
- (ii) The completion of the disposal of the Group's interest in Kanokkorn Pattana Co., Ltd. ("**KNK**") as announced by the Company on 17 September 2020 (the "**Disposal of KNK**") (Note 40(e)) and the timely repatriation of the Group's share of the scheduled receipt of the Group's consideration (net of commission payable) pursuant to the Disposal of KNK for the financial year ending 30 June 2021 amounting to approximately \$10,804,000; and
- (iii) The going concern of the Group.

As at the date of the issuance of these financial statements, there is no indication that the Amount Due To PSDH and the Due To Subsidiaries will be recalled.

The ability of the Group to continue as a going concern is dependent on materialisation of the proposed additional financing from the group of lenders who provided the Loan Facility (the "**Additional Financing**"), the sale of the Group's unsold units at PCR, and the timely receipt of the Group's share of the proceeds from the Disposal of KNK.

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

- (1) The negative implications and sentiments driven by the current COVID-19 pandemic;
- (2) The Group is in various stages of discussions with various parties in relation to the en bloc sale of Tower 3 in PCR as well as bulk sale of between 10 to 50 units in Tower 1 & 2 of PCR;
- (3) The Group is in discussions with the group of lenders who provided the Loan Facility (the "**Lenders**") for Additional Financing and has received a draft term sheet. Discussions are on-going with the Lenders and lender of Facility A. The Additional Financing, if this materialises, will enable the Group to meet its short-term obligations;
- (4) In relation to the Loan Facility, the Group has received a draft term sheet relating to amendments of existing contractual terms, including the extension of maturity of the Loan Facility (originally due on 24 December 2020). The amendments to the contractual terms of the Loan Facility, the Additional Financing, the waiver of the breaches of covenants (Note 23(b)) as well as the amendment to the contractual terms of Facility A (arising from the Additional Financing, if any required) are commercially viewed as a package deal ("**Package Deal**"). The significance of the Package Deal is that it will enable the Group to restructure a significant portion of its loans and borrowing from current to non-current, provide additional funding to the Group and enable the Group to avoid the risks of contractual defaults and cross defaults. In relation to the Group's request for extension of the maturity of the Loan Facility, the Lenders are currently evaluating various options and will respond more definitively in due course. The Lenders have indicated that they understand the restrictions to sales and marketing efforts as a result of the COVID-19 pandemic situation in Malaysia and regionally, and remain supportive of the Group. In the interim, the Lenders continue to reserve their rights in relation to the expiry of the maturity of the Loan Facility;

- (5) The scheduled receipt of the Group's share of the consideration (net of commission payable) pursuant to the Disposal of KNK for the financial year ending 30 June 2021 amounting to approximately \$10,804,000;
- (6) An appeal has been made to the Malaysia Inland Revenue Board for a deferment of payment of a subsidiary's overdue corporate income tax of \$10,390,000; and
- (7) The Group's cash flow projection for the next 12 months.

The Board considered the above and concluded:

- (a) Unless the COVID-19 pandemic is brought under control globally, the fruition of such discussions as presented in item (2) above will likely be delayed. Despite the Group's best efforts, the fruition of such measures as described in items (2) above is uncertain and not within the control of the Group;
- (b) The sale of units in PCR to individual buyers has slowed down significantly and may continue to be so until the COVID-19 pandemic is brought under control globally;
- (c) Currently, there is no clear indication as to how long the COVID-19 pandemic will last, the extent of the damage to global economy and when various countries will lift travel restrictions;
- (d) The progress of the commercial discussions on the Package Deal has not been concluded; and
- (e) The first payment from the buyer of KNK was contractually due on 5 January 2021 (extended from 15 December 2020) and until then, the buyer, subjected to conditions as provided for contractually, has the right to terminate the sales and purchase agreement. A final ultimatum has been given to the buyer to make the first payment by 15 January 2021.

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 12 months as and when they fall due, and consequently, there is uncertainty as to their respective abilities to continue as a going concern for the next 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 Company are to be prepared on a going concern basis.

If the Group and 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 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 required). Hence, no adjustments have been made to the balances presently in the balance sheets of the Group and Company to account for the Adjustments.