PACIFIC STAR DEVELOPMENT LIMITED
Company Registration No. 198203779D
(Incorporated in Republic of Singapore)
(the "**Company**")

RESPONSES TO QUESTIONS FROM THE SECURITIES INVESTORS ASSOCIATION (SINGAPORE) IN RELATION TO ANNUAL REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2022

The board of directors (the "**Board**") of Pacific Star Development Limited (the "**Company**", together with its subsidiaries, the "**Group**") refers to the notice of annual general meeting ("**AGM**") dated 15 December 2022 in relation to the Company's AGM to be held by electronic means on 30 December 2022 at 3.00pm.

The Board would like to update that the Company:

(a) did not receive any questions from shareholders as at the deadline stated in the announcement dated 15 December 2022 relating to the alternative arrangements for the AGM and

(b) would like to take this opportunity to provide responses to questions from the Securities Investors Association (Singapore) ("**SIAS**") received on 23 December 2022 as follow.

<u>Question 1</u>

On 11 November 2022, the company announced that it was informed by SGX to re-submit the resumption of trading proposal ("RTP") Extension that was first submitted to SGX in September 2022. The company is in the process of providing further details and clarifications on the RTP Extension (for an extension of time of 15 months, from 30 September 2022 to 31 December 2023) to SGX RegCo.

The company had already obtained RTP Extensions to:
- 24 November 2021 for a period of 8 months (the "First RTP Extension");
- 24 December 2021 from 24 November 2021 (the "Second RTP Extension"); and
- 30 September 2022 from 24 December 2021 (the "Third RTP Extension").

The trading of the shares of the company has been suspended since 24 March 2020.

The board is of the view that it is not meaningful for the company to submit a RTP until the group is able to complete the bulk sale of the unsold units at Puteri Cove Residences and Quayside and to determine the future growth prospects of the group.

(i) **Can management help shareholders better understand the sentiments on the ground in Iskandar Puteri/Iskandar?**

With the transition in Malaysia towards living endemically with COVID-19, which was effective from 1 April 2022 onwards, and the easing of cross-border entry restrictions into Malaysia effective from 1 May 2022, sentiments on the ground in the Iskandar Puteri area have been gradually improving. The easing of cross-border restrictions was a significant step, as it finally allowed management and prospective buyers to visit Iskandar Puteri and to conduct meetings and on-site viewings. Notwithstanding all these positive developments, the post-COVID recovery is very much still in its nascent stages. As disclosed in page 74 of the Company's 2022 Annual Report (the "**Annual Report**"), under Note 2.1 of the audited financial statements for the financial year ended 30 June 2022 (the "**Audited Financial Statements**"), the sale of units in PCR to individual buyers has not recovered to pre-COVID-19 levels and 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 of buyers' sentiments.

(ii) What are the profiles of the buyers of Puteri Cove Residences and Quayside ("PCR")?

As disclosed under the "Corporate Profile" section of the Annual Report, the buyers of PCR come from over 26 different nationalities. These owners include both owner-occupiers and investors. Their profiles vary widely as well, and include professionals such as bankers, real estate agents, retirees as well as property investors.

(iii) What are the price trends at PCR and the surrounding developments?

The price trend for PCR has been improving since the lifting of border restrictions in Malaysia earlier in the year. PCR is a freehold mixed development designed and marketed as a high end development. Due to the wide variety and different relative locations of real estate projects in the Iskandar Puteri area, the price trends for surrounding developments vary significantly and there are no direct reference points for PCR. The management team ("**Management**") has observed a gradual improvement in price trends for some of the surrounding developments while some other developments are continuing to lower prices.

(iv) How many unsold units are there?

For commercial reasons, Management is not in a position to disclose the number of unsold units.

(v) What is management's strategy to achieve a bulk sale of the unsold units while, at the same time, maximise the recoverable amount of the group's main asset?

Management's strategy is to maintain and enhance the value of the Group's unsold units PCR (as well as PCR as a whole) as best as possible, whilst judiciously evaluating viable deals, whether these pertain to a bulk sale, an en-bloc sale or sale of individual units. There are different nuances and considerations when dealing with transactions of various natures; the approach to dealing with a bulk buyer differs significantly from dealing with a single unit retail buyer.

The COVID-19 pandemic from 2020 to 2022 had an immense adverse impact on the overall property market in Malaysia, including the Iskandar Puteri area. Management is aware of certain cash-strapped developers of surrounding developments who have slashed prices in their efforts to sell inventory to generate cash flow. With the support from our financiers and bank lenders, the strategy for PCR was never to compete based on price. Hence, Management has been selective in engaging with potential buyers, and does not entertain all deals that are placed on the table; where lowball offers are rejected outright. Instead, Management seeks to pursue and structure deals which reflect the quality of PCR and which are financially and commercially reasonable for the Group and its stakeholders.

For example, over the past year, Management has been increasing the vibrancy of the retail area of PCR by bringing in quality tenants, which will have a positive effect on the pricing of the unsold units and provide a competitive advantage over neighbouring developments. More information on the Group's retail tenants can be found in page 9 and 10 of the Company's Annual Report for the financial year ended 30 June 2022 ("**FY2022**").

It is inevitable that current prices reflect the current challenging economic and macro-business reality (especially just after rounding the corner with COVID-19). However, Management is sparing no effort and has been working in good faith to achieve the bulk sale and maximise the recoverable amount of the Group's asset as best as possible, with the long-term viability of the Group as one of the key paramount considerations.

(vi) How was the potential buyer identified?

The discussions with the potential buyers stemmed from the Group's existing network of contacts. For commercial reasons, confidentiality provisions with the potential buyers and the work on the transaction being still in progress, Management is not in a position to disclose more regarding the identity of the potential buyers. Any bulk sale, if required to be disclosed pursuant to the Listing Manual Section B: Rules of Catalist (the "**Catalist Rules**") of the Singapore Exchange Trading Limited ("**SGX-ST**"), will be made public with the relevant details.

(vii) Why is management projecting that the potential transaction (bulk sale) will require another 11-12 months to be completed (i.e. by 30 November 2023)? What are the challenges in concluding the bulk sale of the unsold PCR units?

As disclosed in page 74 under Note 2.1 of the Audited Financial Statements, the combination of the following factors necessitates the runway as described: (i) the current financial position of the Group, and (ii) 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 successful outcome of such discussions may be delayed. Despite the Group's best efforts, the fruition of these is uncertain and not within the control of the Group.

In relation to the indicative timeline, the fact that this is a bulk sale means that there are multiple issues to be addressed, both from the sell-side and the buy-side. Amongst others, the transaction would involve typical facets of due diligence, negotiation, drafting of definitive documentation etc. Hence, a longer runway is required and envisaged for this transaction. The challenges are typical in a large buy-sell transaction, i.e. price negotiations, conditions, and the sheer volume of transactional work involved.

(viii) What is the role of the board, especially the independent directors, in the bulk sale and in the RTP?

The Board's overarching role is to lead and oversee the Group's operations and affairs, which involves the assessment and monitoring of the bulk sale and RTP efforts. Internally, the Board has established a Delegation of Authority matrix whereby any transaction that falls under the definition of a bulk sale will require pre-approval from the Board, which consists of a majority of independent directors.

Management regularly updates the independent directors with regard to the progress of the bulk sale and the RTP efforts.

In the performance of their duties, including the evaluation of any bulk sale and the RTP, the independent directors bring their independent judgement, diversified knowledge and experience to bear on matters brought before them. Amongst others, the independent directors assess the benefits and risks bearing in mind the long-term interest of the Company and the Group.

The role of the Board is fleshed out in greater detail in the Annual Report. Please refer to the section titled "Board Matters" under the Corporate Governance Report contained on Page 15 of the Annual Report for further information.

(ix) Separately, does management have any visibility on the launch of the serviced suites, Pan Pacific Serviced Suites Puteri Harbour?

As a result of the COVID-19 pandemic, the launch of the Pan Pacific Serviced Suites Puteri Harbour has been delayed. As disclosed in page 12 of the Annual Report, the launch date will be dependent on the recovery of the tourism sector post COVID-19.

(x) Given that the accumulated losses have exceeded $213 million, can the board/management help shareholders understand the company's competitive advantage going forward? How does management intend to create long-term, sustainable value for shareholders?

A key tangible competitive advantage lies in the quality of PCR. Management is of the opinion that PCR is the best real estate product in the Iskandar Puteri area. The key is to unlock the value and to monetise PCR as best as possible, and this is aided by the various positive aspects of PCR – waterfront living, a mixed-development encompassing food & beverage and retail elements, proximity to the Second Link, quality of finishing, etc.

An intangible competitive advantage lies in the human capital of the Group. Since the voluntary suspension of the trading of the Company's shares on the SGX-ST in March 2020, the Group has been buffeted by wave after wave of challenges. However, the staff within the Group have steadfastly held onto the sails of our ship to weather the storm, working tireless, creatively and candidly to overcome cashflow challenges, solve operational issues, manage creditors and survive the COVID-19 pandemic. On the backs of these competitive advantages, the Board and Management are working towards the long-term viability of the Group.

The validation of the above competitive advantages is evident from the fact that despite the Group and the Company being in capital deficiencies, the Group obtained S$34.1 million of loans from financiers and third parties in FY2022.

With the core members of Management being tested under the most extreme conditions (financially and in terms of the unprecedented challenges brought on by COVID-19), the Group stand ready to create sustainable and long-term value to its shareholders after the financial challenges are resolved.

At present, the most pressing matter is to bring pen to paper and to conclude the ongoing bulk sale. In due course, especially with the RTP, more will be shared in relation to the Management's plan to create long-term, sustainable value for shareholders.

Question 2

As at 30 June 2022, the group's loans bear interest as high as 25% per annum. As at 30 September 2022, the group has cash and cash equivalent of $(275,000) (as shown below).

As at 30 June 2022, the group has classified loans of $230.2 million. Finance costs increased by $21.4 million to $41.9 million in FY2022.

19. Cash and cash equivalent for Consolidated Cash Flow Statement

	The Group	
	30-Sep-22 $'000	30-Sep-21 $'000
Cash at bank	2,194	488
Less: Bank overdraft	(2,469)	(2,596)
Cash and cash equivalent	**(275)**	**(2,108)**

(Source: company's unaudited condensed interim financial statements for the three-month financial period ended 30 September 2022)

(i) Can management help shareholders better understand the (cash) burn-rate of the group?

The forward cash burn-rate is a commercially sensitive operational matter. Nonetheless, please refer to page 3 of the Annual Report, under "Administrative Expenses", whereby it can be inferred that the indicative historical cash burn rate is not more than approximately $6 million per year and the historical interest of approximately $2.47 million relating to Facility A (as defined in Note 20(b)) since the interest relating to other loans and borrowing are capitalised on a monthly or quarterly basis.

(ii) In addition, with the current debt burden and interest rates as high as 25%, how will the group be profitable?

In a situation of immerse financial challenges, cash flow is more critical than profitability, this has been the impetus for the Group's survival and the management's focus at this current stage.

Hence, the Group has been working towards (1) ensuring the going concern of the Company and the Group, and (2) monetising the unsold units in PCR at a reasonable price in a timely manner. These have been disclosed in page 73 of the Annual Report.

(iii) Who is leading the restructuring efforts, if any? Has the board considered a court supervised reorganisation process to ensure that the interests of equity holders are taken care of?

The overall management of the Group is led by the Executive Chairman, Mr Ying Wei Hsein.

Various options and plans were first discussed by the Board in June 2020, including but not limited to a court supervised re-organisation. At that juncture, the Board has collectively adopted the plan, which has been the Group's road map till date, as presented by the Executive Chairman. The plan for the Group has been regularly reviewed by the Board in view of various development since then.

Whilst going for court supervised re-organisation appears to be the easiest way out, the Management and the Board are of the view that it is not in the best interest of all stakeholders, including the shareholders of the Company, particularly so when there is strong support from our creditors, bank lenders and financiers. Management and the Board are of the view that a consensual process with the Group's creditors, whilst seeking to maximise the value of the PCR, remains the most optimal solution for the Group.

<u>Question 3</u>

As at 30 June 2022, the group is in a net liability position of $(129.4) million. The group recorded a net loss after tax of $(50.3) million in FY2022 as compared with $(32.0) million in FY2021.

The company's independent auditor has also included a disclaimer of opinion in respect of the going concern assumptions of the group and company, amongst others.

(i) Will the projected sale of the remaining PCR units restore the capital position of the company/group?

The answer to this question may be viewed as a financial projection and can be reversed engineered to arrive at the indicative transactional price for the bulk sale. As such, the Company is not able to provide a straight answer in view of the commercial sensitivity.

The overarching objective is to restore the capital/financial positions of the Company and the Group in time to come which is an important consideration for the RTP.

(ii) Can the board/management elaborate further on the main sources of cash flow in the next 18 months?

Retail sales of PCR units are ongoing and the Management is working on the bulk sale transaction and as disclosed in page 73 of the Annual Report, the Company is also seeking financing to meet its near term obligations.

(iii) Will the company be raising additional capital to strengthen the financial position? If so, how will this be carried out? Has the board considered a reverse takeover (RTO) or recapitalisation by current/new controlling shareholder(s)?

The raising of additional capital is an option that will be considered by Management if its value accretive to the Group. All options, including those highlighted above, are possible. However, not every option may be applicable as situations differ from company to company. At this juncture, it is premature to discuss our detailed plans. Whatever options that are taken to address the capital deficiency positions of the Group and the Company will be taken with the interest of all shareholders in mind.

(iv) What are the safeguards put in place by the board, especially the independent directors, to ensure that existing shareholders are not unduly diluted in the fund-raising exercises?

The Company has not indicated that there will be an equity raise. In any case, the Directors have fiduciary duties to all stakeholders of the Company. Shareholders can be assured that any decisions made will have been deliberated at the Board level and will be in the interest of all stakeholders.

In addition, the Catalist Rules already provide a robust framework to govern fund-raising exercises to protect against undue dilution. For example, Chapter 8 of the Catalist Rules sets out the limits and disclosure requirements when dealing with fund-raising exercises. The Company and the Group will adhere to the provisions of the Catalist Rules, if, as and where there are fund-raising exercises.

Ying Wei Hsein
Executive Chairman

29 December 2022
