

INDEPENDENT AUDITOR'S REPORT

To the members of Net Pacific Financial Holdings Limited

Report on the Audit of the Financial Statements

Qualified Opinion

We have audited the financial statements of Net Pacific Financial Holdings Limited (the "Company") and its subsidiaries (collectively, the "Group"), which comprise the consolidated statement of financial position of the Group and statement of financial position of the Company as at 31 December 2021, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows 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 of our report, the accompanying consolidated financial statements of the Group and the statement of financial position of the Company are properly drawn up in accordance with the provisions of the Singapore Companies Act 1967 (the "Act") and Singapore Financial Reporting Standards (International) (SFRS(I)s) 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 2021 and of the consolidated financial performance, consolidated changes in equity and consolidated cash flows of the Group for the year ended on that date.

Basis for Qualified Opinion

Accuracy of the expected credit losses, gain on settlement and foreign exchange differences of the loans to Australian borrowers

On 6 August 2021, Jetwin Investment Pty Limited ("Jetwin"), the Intermediary which facilitated the Group in granting the loans previously to the three borrowers in Australia, had entered into a deed of settlement and release with the borrowers ("2021 Deed") pursuant to which all parties to the 2021 Deed would release each other from the performance of any and all of their obligations under the loan agreements between the Intermediary and the three borrowers. Under the 2021 Deed, cash of AUD 4.2 million and the ownership in three properties in Australia had been transferred to the Intermediary as settlement of the loans previously granted by the Group through the Intermediary.

As highlighted in our auditor's report dated 7 April 2021, we were unable to obtain sufficient appropriate audit evidence to satisfy ourselves as to the accuracy and recoverability of the carrying value of the loans of HK\$18,585,000 made to Australian borrowers which were past due and no repayment was made for these outstanding loans. Management had performed an expected credit loss analysis taking into consideration of the estimated projected value of the underlying development projects and the proposed settlement offer received from the borrowers. However, we were unable to establish the accuracy of the cash flows which the Group expects to receive from these Australian borrowers. Furthermore, we were not furnished with the latest financial information of these Australian borrowers for us to evaluate on the recoverability of these loans.

As a result of the qualification on the accuracy and recoverability of the carrying value of the loans to the three Australian borrowers of HK\$18,585,000 for the financial year ended 31 December 2020, we are unable to determine whether the opening balances as at 1 January 2021 are fairly stated. Accordingly, we are unable to ascertain whether the reversal of expected credit losses of HK\$4,165,000 (2020 - expected credit losses of HK\$8,946,000), gain on settlement of loan of HK\$221,000 (2020 - Nil) and foreign exchange loss of HK\$837,000 (2020 - foreign exchange gain of HK\$2,375,000) arising from the translation of the carrying amount of the loans to these three Australian borrowers denominated in Australian dollars at the date of settlement to its functional currency which is Hong Kong dollars reported in the consolidated statement of comprehensive income is fairly stated for the year ended 31 December 2021.

The auditor's report for the financial year ended 31 December 2020 included a similar qualification on the accuracy and recoverability of the carrying values of HK\$18,585,000 for the three Australian loans. Our opinion on the current year's financial statements is also modified because of the possible effects of this matter on the comparability of the current year's figures and corresponding figures.

Accuracy of the expected credit loss of the amounts due from a subsidiary - Company level

As at 31 December 2021, included in other receivables (Note 14) is a net carrying value of non-trade amounts due from subsidiaries recorded at the Company level of HK\$83,692,000 (2020 - HK\$88,360,000).

As highlighted in our auditor's report dated 7 April 2021, in the absence of alternative audit evidence available to us, we were unable to determine whether any further adjustments would be required to the carrying value of the non-trade amounts due from a subsidiary of HK\$65,215,000 recorded at Company level as at 31 December 2020. In performing the expected credit loss assessment, management had considered that the loans and advances to the three Australian borrowers with a carrying value of HK\$18,585,000 recorded in the subsidiary's books can be recovered in full. The auditor's report for the financial year ended 31 December 2020 included a qualification on the accuracy and recoverability of the carrying value of loans of HK\$18,585,000 for the three Australian loans recorded. As such, we were unable to obtain sufficient appropriate audit evidence to satisfy ourselves as to the accuracy and recoverability of the carrying value of the loans of HK\$18,585,000 made to the Australian borrowers.

For the same reasons as highlighted in the preceding paragraph, we were thus unable to obtain sufficient appropriate audit evidence on the recoverability of the opening balance of the carrying value of the non-trade amounts due from the subsidiary of HK\$65,215,000 recorded in the Company's statement of financial position as at 1 January 2021. Accordingly, we are unable to ascertain whether the reversal of allowance for expected credit loss of HK\$1,016,000 (2020 - allowance for expected credit loss of HK\$6,474,000) is fairly stated for the year ended 31 December 2021. Our opinion on the current year's financial statements is also modified because of the possible effects of this matter on the comparability of the current year's figures and corresponding figures.

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 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.

INDEPENDENT AUDITOR'S REPORT

To the members of Net Pacific Financial Holdings Limited

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. As described in the *Basis for Qualified Opinion* section above, we are unable to obtain sufficient appropriate audit evidence about the accuracy of the expected credit losses, gain on settlement and foreign exchange differences of the loans to Australian borrowers as we are unable to determine whether the opening balances as at 1 January 2021 are fairly stated; and the accuracy of the reversal of allowance for expected credit losses on the Company's non-trade amounts due from a subsidiary. Accordingly, we are unable to conclude whether or not the other information is materially misstated with respect to this matter.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2021

12 Loans and advances

The Group

In prior years, the Group had offered and granted loans to external parties via its Hong Kong subsidiary (registered money lender in Hong Kong). The Group continues to grant three loans (2020: three loans) to the existing borrowers via its Hong Kong subsidiary.

In prior years, the Group had offered and granted loans to external borrowers in Australia via an independent and non-controlling vehicle which was Jetwin Investment Pty Ltd (the "Intermediary"). The Intermediary was incorporated in Australia in 2013 by third parties unrelated to the Group. During the current financial year, all the principal loans to the Australian borrowers were settled.

Nature of business of borrowers	Carrying amount of loans		Country	Maturity date	Interest rate	
	2021 HK\$'000	2020 HK\$'000			2021 %	2020 %
Scrap metals trading	18,000	18,000	PRC and Hong Kong	Revolving	12	12
Property Trading	–	18,585	Australia	30 June 2017	12-48	12 - 48
Investment	4,600	4,600	Hong Kong	Revolving	12	12
	5,000	5,000	British Virgin Islands	Revolving	12	12
	27,600	46,185				

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2021

12 Loans and advances (Cont'd)

The Group	2021 HK\$'000	2020 HK\$'000
Loans and advances repayable within one year	27,600	64,420
Expected credit losses:		
At beginning	(18,235)	(16,193)
Allowance for expected credit losses	–	(8,946)
Reversal of over provision of allowance for expected credit losses	4,165	–
Allowance utilised upon settlement of loans	13,247	–
Write-off	–	8,434
Foreign exchange difference	823	(1,530)
At end	–	(18,235)
Net loans and advances	<u>27,600</u>	<u>46,185</u>

Following the de-registration of one of the borrowers in the last financial year ended 31 December 2020, management had written off the loans amounting to HK\$8,434,000 which had been fully impaired in previous years.

Loans and advances are denominated in the following currencies:

The Group	2021 HK\$'000	2020 HK\$'000
Australian dollar	–	18,585
Hong Kong dollar	27,600	27,600
Total loans and advances	<u>27,600</u>	<u>46,185</u>

The Group

Financial guarantee of the loans and advances

In prior years, to the extent of guaranteed returns, the Group's subsidiary, Net Pacific Investment Holdings Limited, had previously entered into financial guarantee contracts with Underwriters who were contracted as the issuer of the financial guarantee to underwrite the full portion of principal loaned by the Group at a minimum interest of 12% per annum. In return, the Underwriters were entitled to benefit arising from the repayment of the loans on the following basis:

- (i) where the return per annum on the loans due to the Group including annual interest (after tax, if any) ("Returns on Borrowing") for the applicable year was equal to or more than 48% per annum of the loans, the Group shall pay the Underwriters such commission which was equal to 50% of the Returns on Borrowing for such year; or
- (ii) where the Returns on Borrowing for the applicable year was equal to or more than 24% per annum of the loans, but less than 48% of the loans per annum, the Group shall pay the Underwriters such commission equal to such amount of Returns on Borrowing for such year in excess of 24% per annum of the loan; or
- (iii) where the Returns on Borrowing was less than 24% per annum of the loans, the Underwriters shall not be entitled to a commission for such year and the Returns on Borrowing for such year shall be retained solely for the benefit of the Group.

There was no commission incurred or paid to the Underwriters during the financial years ended 31 December 2021 and 2020. In the last financial year ended 31 December 2020, the Group had entered into underwriting agreements with two Underwriters for certain of its loans and advances.

As part of the Group's management of its overall credit risk exposure, internal assessment has been performed by the Credit Committee on the financial ability of the Ultimate Borrowers to repay the loans and advances.

Expected credit losses in respect of FY2021

On 6 August 2021, Jetwin Investment Pty Limited ("Jetwin"), the Intermediary which facilitated the Group in granting loans to borrowers located in Australia, had entered into a deed of settlement and release (the "2021 Deed") with, inter alia, the remaining three (3) borrowers located in Australia (the "Borrowers") pursuant to which it was agreed, among other things, that the parties to the 2021 Deed shall resolve all their disputes on the terms and conditions set out in the 2021 Deed and absolutely, unconditionally and irrevocably release and forever discharge and hold each other free from and against any and all claims including their obligations under the loan agreements entered into between Jetwin and the Borrowers without any admission of any liability of any kind whatever (the "Settlement"). Under the 2021 Deed, cash of AUD4,196,000 and the ownership in three properties in Australia had been transferred to the Intermediary as settlement of the loans previously granted by the Group to the remaining three Borrowers via the Intermediary. Under the Confirmation Letter dated 6 August 2021 between NPIHL and the Intermediary, the latter had confirmed that notwithstanding that the Properties were transferred to the Intermediary, the Intermediary agreed to grant security over the Properties to NPIHL, whether by way of caveat or registered mortgage, and not otherwise encumber the Properties as security for repayment of the loans. In addition, unless and until the amount due by the Intermediary are fully repaid to NPIHL, the sale, transfer or disposal of any or all the Properties by the Intermediary shall only be made with the prior written consent of NPIHL amongst other terms and conditions as specified in the Confirmation Letter. Following the settlement of the debts with the Borrowers in Australia, the Group had recognised a reversal of expected credit loss of HK\$4,165,000 and a gain on settlement of HK\$221,000. (2020 – Allowance of expected credit loss of HK\$8,946,000 after taking into consideration of the estimated projected value of the underlying development projects and the proposed settlement offer received from the Borrowers).

Please refer to Note 23 for details of foreign currency and credit risk exposure.