

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 2019, 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, Chapter 50 (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 2019 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 and recoverability of the principal loans to Australian borrowers

As at 31 December 2019, the carrying values of the loans and advances (Note 12) stated on the consolidated financial statements are HK\$55,056,000 (2018 - HK\$76,466,000). Included in this carrying amount is HK\$ 25,156,000 (2018 - HK\$41,166,000 for five Australian loans) which comprises of three Australian loans.

As at 31 December 2019, all the principal loans to the Australian borrowers had passed their maturity dates for repayment. In 2019, there was no repayment of principal for all three Australian loans. Management had performed an expected credit loss analysis taking into consideration of the financial performance of the projects undertaken by the Australian 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. In the absence of other satisfactory evidence, we are unable to obtain sufficient appropriate audit evidence to satisfy ourselves as to the accuracy and recoverability of the principal sum of the said loans. Accordingly, we were unable to determine whether adjustments to the loans and advances and the loss for the year reported in the consolidated statement of comprehensive income might be necessary for the year ended 31 December 2019. Please refer to Note 12 for details.

The auditor's report for the financial year ended 31 December 2018 included a similar qualification on the accuracy and recoverability of the principal of HK\$41,166,000 for the five 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.

Recoverability of amounts due from a subsidiary - Company level

As at 31 December 2019, included in other receivables (Note 15) is a net carrying value of non-trade amounts due from subsidiaries recorded at the Company level of HK\$95,125,000 (2018 - HK\$143,298,000).

Management had carried out a review of the recoverable amount of the amounts extended to its subsidiaries to determine whether any expected credit loss is required. For the non-trade amounts due from subsidiaries which are repayable on demand, the expected credit loss analysis is based on the assumption that repayment of the non-trade amounts due from these subsidiaries is demanded at the reporting date.

Based on management's assessment, the non-trade amounts due from a subsidiary could not be repaid if demanded at the reporting date after considering the accessible highly liquid assets of the subsidiary. Accordingly, management had made an expected credit loss of HK\$44,863,000 on the non-trade amounts due from the subsidiary during the financial year ended 31 December 2019. 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\$25,156,000 recorded in the subsidiary's books can be recovered in full. As highlighted under the *Basis for Qualified Opinion* section of our report on the accuracy and recoverability of the principal loans to the Australian borrowers, in the absence of other satisfactory evidence, we were unable to obtain sufficient appropriate audit evidence to satisfy ourselves as to the accuracy and recoverability of the principal sum of the said loans.

In the absence of alternative audit evidence available to us, we were thus unable to determine whether any further adjustments would be required to the carrying value of the non-trade amounts due from the subsidiary of HK\$72,027,000 recorded at Company level as at 31 December 2019. The auditor's report for the financial year ended 31 December 2018 included a qualification on the accuracy and recoverability of the principal loans of HK\$41,166,000 for the five Australian loans recorded. For the same reasons as highlighted in the preceding paragraph, we were unable to obtain sufficient appropriate evidence on the recoverability of the opening balance of the carrying value of the non-trade amounts due from the subsidiary of HK\$112,844,000 recorded at the Company level. 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.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

12 Loans and advances

The Group

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

The Group has (a) offered and granted four loans to external parties (2018 - six loans) via an independent and non-controlling vehicle which is Jetwin Investment Pty Ltd (the "Intermediary") to borrowers located in Australia (b) offered and granted four loans (2018 - five loans) to external parties via its Hong Kong subsidiary (registered money lender in Hong Kong). The Intermediary was incorporated in Australia in 2013 by third parties unrelated to the Group.

Nature of business of borrowers	Principal amount of loans		Country	Maturity date	Interest rate	
	2019 HK\$'000	2018 HK\$'000			2019 %	2018 %
Scrap metals trading	18,000	18,000	PRC and Hong Kong	Revolving	12	12
Property	25,156	41,166	Australia	30 June 2017	12-48	12 - 48
Personal use	2,300	5,000	Hong Kong	Revolving	13	13
Trading	4,600	2,300	Hong Kong	Revolving	12	12
Investment	5,000	10,000	British Virgin Islands	Revolving	12	12
	55,056	76,466				

	31 December 2019 HK\$'000	31 December 2018 HK\$'000
The Group		
Loans and advances repayable within one year	71,249	84,262
Expected credit losses:		
At beginning	(7,796)	-
Allowance for expected credit losses (Note 5)	(8,487)	(7,796)
Foreign exchange difference	90	-
At end	(16,193)	(7,796)
Net loans and advances	55,056	76,466

Loans and advances are denominated in the following currencies:

	31 December 2019 HK\$'000	31 December 2018 HK\$'000
The Group		
Australian dollar	25,156	41,166
Hong Kong dollar	29,900	35,300
Total loans and advances	55,056	76,466

Financial guarantee of the loans and advances

To the extent of guaranteed returns, the Group's subsidiary, Net Pacific Investment Holdings Limited, has entered into financial guarantee contracts with Underwriters who are 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 are 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 is equal to or more than 48% per annum of the loans, the Group shall pay the Underwriters such commission which is equal to 50% of the Returns on Borrowing for such year; or
- (ii) where the Returns on Borrowing for the applicable year is 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 is 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 is no commission incurred or paid to the Underwriters during the financial years ended 31 December 2019 and 2018.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2019

12 Loans and advances (Cont'd)

The Group also entered into underwriting agreement for its FVOCI financial assets with similar terms and conditions. In aggregate, the Group had entered into underwriting agreements with three (2018 - three) Underwriters for its loans and advances and FVOCI financial assets.

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.

Impairment assessment

The Group has recognised expected credit losses for the loan principal and interest receivable due from two (2018 - six) Ultimate Borrowers amounting to HK\$8,487,000 (2018 - HK\$7,796,000) and HK\$Nil (2018 - HK\$27,484,000) (Refer to Note 15) respectively in the profit or loss for the current year ended 31 December 2019 as these balances are deemed not recoverable. The details are as follows:

Expected credit losses in respect of FY2019

Despite the passing of the maturity dates for the repayment of loan principal due from two of the Ultimate Borrowers in Australia, there was no subsequent payment to the loans. As a result, the Group had provided for expected credit losses of HK\$8,487,000 on the above principal loans receivable from the two Ultimate Borrowers in Australia, after taking into consideration a forward-looking analysis of the financial performance of the projects undertaken by the borrowers.

Expected credit losses in respect of FY2018

- One of the Ultimate Borrower had been placed under receivership in November 2016. The Group initiated the process and entered into settlement agreement to claim the remaining net carrying value of the related principal amount and guaranteed 12% interest receivable aggregating HK\$20,348,000 from the Underwriter in 2016. The Group had received HK\$7,164,000 from the Underwriter in 2017. The balance of HK\$13,184,000 was due on 31 December 2017 pursuant to the settlement agreement. The Group had subsequently agreed with the Underwriter to settle the balance via additional shares of a partner company upon its successful listing on the Australian Securities Exchange ("ASX") latest by 30 April 2018. As the planned ASX listing did not proceed, the Group made full provision for impairment of the loan principal of HK\$7,796,000 and interest receivable of HK\$4,143,000 in 2018.
- The Intermediary had on 12 November 2017 entered into a conditional agreement with three (3) of the Ultimate Borrowers in Australia to convert loans into shares of a partner company which was planning to list on ASX. As the planned ASX listing did not proceed, the Group made full provision for impairment of the interest receivable of HK\$8,126,000 in 2018.
- The remaining interest receivable of HK\$15,215,000 was fully impaired as at 31 December 2018.

The Group's loans and advances comprise of eight borrowers (2018 - eleven borrowers) that represented 100% (2018 - 100%) of the total loans and advances. There is significant credit concentration in a few borrowers.

Please refer to Note 24 for details of foreign currency exposure and credit risk exposure.