

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2017

12 Loans and advances

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are presented as current assets, except for those expected to be realised later than 12 months after the reporting date which are presented as non-current assets.

The Group has (a) offered and granted six loans to external parties (2016 – six) 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 (2016 – three) 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.

The Intermediary has on 12 November 2017 entered into a conditional agreement (on behalf of the Group) with three of the Ultimate Borrowers in Australia to convert the loans of approximately AUD5,000,000 (equivalent to approximately HK\$30,507,000) into shares of a company (“Partner Company”), which is the holding company of the development manager for the property development projects (“Conversion”). The Partner Company is currently seeking to list on the Australian Securities Exchange (“ASX”). The Conversion is subject to the satisfaction of various conditions including the successful listing of the shares of the Partner Company on the ASX.

Nature of business of borrowers	Principal amount of loans		Country	Maturity date	Interest rate	
	2017 HK\$'000	2016 HK\$'000			2017 %	2016 %
Scrap metals trading	18,000	29,968	PRC and Hong Kong	Revolving in 6-12 months from draw down	12	12
Property development	58,431	65,564	Australia	30 June 2017	12-48	12-48
Personal use	5,000	5,000	Hong Kong	Revolving in 6 months from draw down	13	13
Investment	5,000	–	British Virgin Islands	Revolving	12	–
	86,431	100,532				

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12 Loans and advances (Cont'd)

	2017 HK\$'000	2016 HK\$'000
The Group		
Amount repayable within one year	86,431	100,532

Loans and advances are denominated in the following currencies:

	2017 HK\$'000	2016 HK\$'000
The Group		
Australian dollar	58,431	65,564
Hong Kong dollar	28,000	34,968
Total loans and advances	86,431	100,532

The carrying amounts of loans and advances approximate their fair value.

In respect of credit risk, please refer to Note 21.3.

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 invested by the Group and the 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 investment; 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 current financial year (2016 - HK\$Nil).

The Group requires the guarantees repayable sum on the principal and to the extent of interest thereon from the Underwriters.

The Group has entered into underwriting agreements for all the available-for-sale financial assets (Note 10) with similar terms and conditions. In aggregate, the Group has entered into underwriting agreements with three Underwriters (2016 - three) for loans and advances, and available-for-sale financial assets.

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Impairment assessment

The Group has performed internal assessment via its Credit Committee on the financial ability of the Ultimate Borrowers' financial abilities. No impairment is required on the basis that the market value of the projects are higher than the carrying value of the loans and receivables, except for six (2016 – one) Ultimate Borrower described below:

- (a) The Group has recognised an impairment loss of HK\$6,537,000 (2016 – HK\$4,899,000) in the profit or loss for the current year ended 31 December 2017 in Note 13 for the interest receivable to the extent of un-guaranteed sum by the Underwriters and the unrecoverable amount based on projected cash flow from the respective development projects.
- (b) One of the Ultimate Borrower has been placed under receivership in November 2016. The Group has initiated the process by entering into settlement agreement to claim the remaining net carrying value of the related principal amount and guaranteed 12% interest receivable totalling HK\$18,776,000 from the underwriter.
- (c) The Group has received HK\$7,164,000 from the Underwriter and HK\$17,676,000 from the Ultimate Borrowers in 2017.
- (d) The balance of HK\$13,184,000 is due on 31 December 2017 pursuant to the settlement agreement. The Group has agreed with the Underwriter on 28 January 2018 and further extended on 8 March 2018 to settle the balance via additional shares of a Partner Company upon its successful listing on the ASX latest by 30 April 2018.

Please refer to Note 21 for details of foreign currency exposure and credit risk exposure.