

# Net Pacific Financial Holdings Limited

(Incorporated in the Republic of Singapore)  
(Company Registration Number 200300326D)

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## RESPONSES TO SGX QUERIES

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*Unless otherwise defined in this announcement, capitalised terms shall have the meanings assigned to them in the Company's announcement dated 4 July 2019, 6 August 2021 and 27 April 2021, and the annual report for the financial year ended 31 December 2021 released on 11 April 2022 ("FY2021 Annual Report").*

The Board of Directors (the "**Board**") of Net Pacific Financial Holdings Limited (the "**Company**") and together with its subsidiaries, the "**Group**") refers to the queries from the Singapore Exchange Securities Trading Limited ("**SGX-ST**") on 22 April 2022 regarding the Company's FY2021 Annual Report and wishes to respond to the queries as follows:

	Query	Response
1.	<p>We noted from the FY2021 Annual Report that the Auditors have issued a qualified opinion. Please provide clarifications on the following:</p> <p>On page 45 of the Annual Report, the auditors were unable to obtain sufficient appropriate audit evidence to satisfy themselves as on the accuracy and recoverability of the carrying value of the loans of HKD\$18,585,000 made to Australian borrowers which were past due and no repayment was made for these outstanding loans.</p> <p>Please provide details along with a breakdown schedule of the HK\$18,585,000 loan for each of the Australian borrowers.</p>	<p>The Board would like to highlight that the qualified opinion in FY2021 Annual Report relates to the Group's opening balances as at 1 January 2021 and movement during FY2021, as a result of the qualification on the accuracy and recoverability of the carrying value of the loans to the Borrowers of HK\$18,585,000 for the financial year ended 31 December 2020.</p> <p>As previously announced by the Company on 27 April 2021, the Board is of the view that the identities of the three Australian borrowers (the "<b>Borrowers</b>") and their shareholders and directors are confidential information and hence, the Company will not be disclosing these information in this announcement.</p> <p>A breakdown of the HK\$18,585,000 loan without identifying the Borrowers is found in the Company's response to Query 3 below.</p>

	Query	Response																																										
2.	Please explain why the auditors were not furnished with the latest financial information of the Australian borrowers to evaluate the recoverability of the loan amounts.	Similar to FY2020, the Auditors were unable to establish the accuracy of the cash flows which the Group expects to receive from these Australian borrowers, as they required audit evidence comprising the latest financial information of these Australian borrowers which were not furnished to them to evaluate on the recoverability of these loans. The Borrowers have been advised by their legal advisors not to provide or approve any documents in relation to these loans as they are in the midst of negotiating a settlement which started in 2018.																																										
3.	Please elaborate on the Board's assessment, together with the bases for their assessment of the following items with regards to the loan: <ul style="list-style-type: none"> <li>i) Recoverability of the loans;</li> <li>ii) Reversal of the expected credit losses of HK\$4,165,000</li> <li>iii) Gain on loan settlement of HK\$221,000</li> </ul>	<p>The breakdown of the reversal of the expected credit losses ("ECL") and gain on loan settlement are derived as follows:</p> <table border="1"> <thead> <tr> <th>HK\$'000</th> <th>Borrower A</th> <th>Borrower B</th> <th>Sub-total</th> <th>Borrower C</th> <th>Total</th> </tr> </thead> <tbody> <tr> <td>Loan amount as at 1 January 2021</td> <td>5,781</td> <td>3,839</td> <td>9,620</td> <td>8,965</td> <td>18,585</td> </tr> <tr> <td>Revaluation of loans (Note 1)</td> <td>(261)</td> <td>(173)</td> <td>(434)</td> <td>(404)</td> <td>(838)</td> </tr> <tr> <td>Loan amount as at date of settlement</td> <td>5,520</td> <td>3,666</td> <td>9,186</td> <td>8,561</td> <td>17,747</td> </tr> <tr> <td>Less proceeds net of expenses</td> <td>8,194</td> <td>5,157</td> <td>13,351</td> <td>8,782</td> <td>13,351</td> </tr> <tr> <td>Reversal of ECL</td> <td>2,674</td> <td>1,491</td> <td>4,165</td> <td></td> <td>4,165</td> </tr> <tr> <td>Gain on loan settlement</td> <td></td> <td></td> <td></td> <td>221</td> <td>221</td> </tr> </tbody> </table> <p>Note (1) – Adjustment arising from foreign exchange differences derived from the translation of loans denominated in Australian dollar as at 1 January 2021 and settlement in August 2021.</p> <p>The Company initiated negotiations in 2018 with the five (5) Borrowers via an intermediary, Jetwin Investment Pty Ltd, and with the assistance of the legal advisor in Australia on settlement of all the outstanding Australian loans. In June 2019, settlement was reached with two (2) of the borrowers in Australia to settle the loans via properties and cash. Please refer to the announcement dated 4 July 2019 for more information in this regard.</p> <p>The Company continued to engage with the remaining three (3) Borrowers over the following two years. While a number of proposals were under discussion during this period, there was no settlement agreement reached as the Board of Directors was of the opinion that none of the proposals were in the best interest of the Group until the final settlement proposal was discussed.</p> <p>The Board decided to accept the settlement proposal which was signed on 6 August 2021 (Please refer to the announcement dated 6 August 2021) ("<b>Settlement</b>") after assessing and taking into account the following:</p> <ul style="list-style-type: none"> <li>(i) The negotiation process has been costly as legal and professional fees spent exceeded HKD3.0 million up to June 2021 before deed of settlement was signed in August 2021;</li> <li>(ii) Uncertainties exist if the Company were to wait for the Borrowers, who are engaged in property development, to sell all remaining units in order for the Group to recover the principal; and</li> <li>(iii) The legal advisor advised that the outcome to a legal process to pursue on claims against Borrowers is uncertain and the process would be lengthy and costly.</li> </ul>	HK\$'000	Borrower A	Borrower B	Sub-total	Borrower C	Total	Loan amount as at 1 January 2021	5,781	3,839	9,620	8,965	18,585	Revaluation of loans (Note 1)	(261)	(173)	(434)	(404)	(838)	Loan amount as at date of settlement	5,520	3,666	9,186	8,561	17,747	Less proceeds net of expenses	8,194	5,157	13,351	8,782	13,351	Reversal of ECL	2,674	1,491	4,165		4,165	Gain on loan settlement				221	221
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	Query	Response
3.	Contd	<p>For Borrowers A and B, the Group performed internal assessment via its credit committee on the recoverability of the loans and impairment loss were made over the period from the start of the negotiation in 2018 up to 2020 based on the Board's assessment on the recoverability of the loans over the said period taking into account factors such as the length of period the loans remain outstanding and responses of the Borrowers. However, as the proceeds from the final Settlement was higher than the partially impaired loan amount, this had resulted in a reversal of ECL of HK\$4.2 million in FY2021 which the Board viewed was fair and reasonable.</p> <p>For Borrower C, no impairment provisions have been made over the period as the proposed settlement under negotiation was in excess to the principal. This had resulted in a gain on loan settlement of HK\$0.2 million for Borrower C which the Board viewed was fair and reasonable.</p>
4.	Aside from the deed of settlement, has the Company taken other measures to recover the loan amount.	Though a few proposals surfaced during the negotiation period, the Board of Directors of the Company was of the view that none of these other proposals were in the best interest of the Group. The settlement agreement signed in August 2021 was considered more beneficial to the Company on the whole as elaborated under the response to Query 3.
5.	<p>Additionally, we noted that the Internal Audit function is outsourced to David Ho &amp; Company.</p> <p>Listing Rule 1207(10C) requires the Audit Committee's comments on whether the internal audit function is independent, effective and adequately resourced. Please provide information on the relevant experience of David Ho &amp; Company, and the engagement team for the internal audit review of the Company.</p>	<p>David Ho &amp; Company (the "<b>Firm</b>") is an independent certified public accounting firm in Hong Kong founded and managed by Mr David Ho Tai Wai, a qualified public accountant practising since 1998. Prior to setting up his own practice, Mr Ho worked in a few banks in the credit marketing and treasury departments. Prior to that, he was an executive director in a Hong Kong electronic product manufacturing company which employed over 5000 employees. As an executive director, he supervised the accounting and finance, sales and marketing, electronic learning aids and computing departments.</p> <p>The Firm provides accounting and internal audit service to clients primarily listed on the Hong Kong Exchange.</p> <p>The current internal audit engagement for the Company is handled by Audit Manager Mr. Roger Lam who is a fully qualified associate member of the Australian Certified Public Accountants. With more than ten years of audit experience in various industries including manufacturing &amp; engineering, distribution, retailing and logistics management, Mr Lam is involved in statutory audit, tax compliance, internal control and investigations and due diligence for clients. Mr Lam is assisted by John Chow, Assistant Manager and an accounting graduate with 7 years of audit, tax and internal audit experience.</p> <p>Having considered, amongst others, the experience of the internal audit team for the Company, the Audit Committee is of the view that the internal audit function is independent, effective and adequately resourced.</p>

**By Order of the Board**

Ong Chor Wei @ Alan Ong  
Chief Executive Officer  
26 April 2022

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*This announcement has been reviewed by the Company's sponsor, PrimePartners Corporate Finance Pte. Ltd. (the "**Sponsor**"). It has not been examined or approved by the Singapore Exchange Securities Trading Limited (the "**Exchange**") and the Exchange assumes no responsibility for the contents of this document, including the correctness of any of the statements or opinions made or reports contained in this document.*

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