

INDEPENDENT AUDITOR'S REPORT

To the members of Net Pacific Financial Holdings Limited

Report on 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 statements of financial position of the Group and the Company as at 31 December 2018, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows 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 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, Cap. 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 2018 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 of the loans

As at 31 December 2018, the carrying values of the loans and advances stated on the consolidated financial statements are HK\$76,466,000 (2017 - HK\$86,431,000). Included in this amount is HK\$41,166,000 (2017 - HK\$58,431,000 for 6 Australian loans) which comprises of 5 Australian loans. Similar to prior year, we are unable to obtain all the loan confirmations in the current year for the 5 Australian loans. Based on the legal advice provided to the Ultimate Borrowers, we did not receive any confirmations in the current year and we are unable to ascertain the existence and accuracy of the amount.

As at 31 December 2018, all the principal of the Australian loans of HK\$41,166,000 (2017 - HK\$58,431,000) have passed their maturity dates. In 2018, there have been no repayment of principal for all the loans except for two loans with minimal repayments. We are unable to ascertain the repayment as of the date of this report. In the absence of other satisfactory evidence, we are unable to satisfy ourselves as to the recoverability of the principal sum of the said loans. Please refer to Note 12 for details.

The auditor's report for the financial year ended 31 December 2017 included a similar qualification on the accuracy and recoverability of the principal of HK\$58,431,000 and interest receivable of HK\$30,351,000 of the 6 loans.

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.

Information Other than the Financial Statements and Auditor's Report Thereon

Management is responsible for the other information. The other information refers to the annual report but does not include the financial statements and our auditor's report thereon, which we obtained prior to the date of this auditor's report, and the remaining sections of the annual report which are expected to be made available to us after that date.

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 were unable to obtain sufficient appropriate evidence about the carrying amount and existence of the principal receivable as at 31 December 2018. 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 2018

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 (31 December and 1 January 2017 – 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 five loans (31 December 2017 – four; 1 January 2017 – 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.

Nature of business of borrowers	Principal amount of loans		Country	Maturity date	Interest rate	
	2018 HK\$'000	2017 HK\$'000			2018 %	2017 %
Scrap metals trading	18,000	18,000	PRC and Hong Kong	Revolving	12	12
Property	41,166	58,431	Australia	30 June 2017	12 - 48	12 - 48
Personal use	5,000	5,000	Hong Kong	Revolving in 6 months	13	13
Trading	2,300	–	Hong Kong	Revolving	12	–
Investment	10,000	5,000	British Virgin Islands	Revolving	12	12
	76,466	86,431				

	31 December 2018 HK\$'000	31 December 2017 HK\$'000
The Group		
Loans and advances repayable within one year	84,262	86,431
Impairment losses:		
At beginning	–	–
Allowance for impairment	(7,796)	–
At end	(7,796)	–
Net loans and advances	76,466	86,431

Loans and advances are denominated in the following currencies:

	31 December 2018 HK\$'000	31 December 2017 HK\$'000	1 January 2017 HK\$'000
The Group			
Australian dollar	41,166	58,431	65,564
Hong Kong dollar	35,300	28,000	34,968
Total loans and advances	76,466	86,431	100,532

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

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2018

12 Loans and advances (Cont'd)

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 (31 December and 1 January 2017 - HK\$Nil).

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

The Group entered into underwriting agreements for all FVOCI and FVTPL financial assets (Note 13 and 14) with similar terms and conditions. In aggregate, the Group has entered into underwriting agreements with three (31 December and 1 January 2017 - three) Underwriters for loans and advances, FVOCI financial assets and FVTPL financial assets.

Impairment assessment

The Group assesses on a forward-looking basis the expected credit losses (ECL) associated with its debt instrument assets carried at amortised cost. ECL are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

For loans and advances and other receivables, the Group measures the loss allowance at an amount equal to the lifetime expected credit losses as at the reporting date, the credit risk has not increased significantly since initial recognition. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. The internal credit ratings have been mapped to external credit ratings determined by credit rating agencies such as Moody's and Fitch, so as to determine the appropriate expected credit loss rates.

The Group has performed internal assessment via its Credit Committee on the financial ability of the Ultimate Borrowers' financial abilities.

No impairment is required except for six (31 December 2017 – six; 1 January 2017 - one) Ultimate Borrowers described below:

The Group has recognised an impairment loss for the loan principal and interest receivable of HK\$7,796,000 (31 December and 1 January 2017 – HK\$Nil) and HK\$27,484,000 (31 December 2017 – HK\$6,537,000 and 1 January 2017 – HK\$4,899,000) (Refer to Note 15) respectively in the profit or loss for the current year ended 31 December 2018 for the loan principal and interest receivable deemed not recoverable. The details of items are as follows:

- One of the Ultimate Borrower has been placed under receivership in November 2016. The Group 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\$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 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 Australian Securities Exchange ("ASX") latest by 30 April 2018. As at 31 December 2018, as there are no further developments to the planned ASX listing, the Group made full provision for impairment of the loan principal of HK\$7,796,000 (31 December 2017 – HK\$Nil and 1 January 2017 – HK\$Nil) and interest receivable of HK\$4,143,000 (31 December 2017 – HK\$Nil and 1 January 2017 – HK\$4,899,000) in 2018.
- The Intermediary has 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 is the holding company of the development manager for the property development projects. The partner company plans to list on the ASX. As at 31 December 2018, as there are no agreements reached with the partner company on the next course of action, the Group made full provision for impairment of the interest receivable of HK\$8,126,000 (31 December 2017 – HK\$737,000 and 1 January 2017 – HK\$Nil).
- The remaining interest receivable of HK\$15,215,000 was fully impaired as at 31 December 2018 (31 December 2017 – HK\$5,800,000 and 1 January 2017 – HK\$Nil).

Please refer to Note 22 for details of foreign currency exposure and credit risk exposure.