

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 2020, 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 2020 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 loans to Australian borrowers

As at 31 December 2020, the carrying values of the loans and advances (Note 12) stated on the consolidated financial statements are HK\$46,185,000 (2019 - HK\$55,056,000). Included in this carrying amount is HK\$18,585,000 (2019 - HK\$25,156,000 for three Australian loans) which comprises three Australian loans.

As at 31 December 2020, all the loans to the Australian borrowers were past due for repayment. In 2020, there was no repayment made for all three Australian 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. 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 carrying values of the said loans. Accordingly, we were unable to determine whether adjustments to the loans and advances and the loss for the year (including allowance for expected credit losses of HK\$8,946,000 (2019: HK\$8,487,000) and foreign exchange gain of HK\$2,375,000 (2019: foreign exchange loss of HK\$391,000) arising from the translation of the carrying amount of the loans to the Australian borrowers denominated in Australian dollars to the entity's functional currency which is Hong Kong dollars) reported in the consolidated statement of comprehensive income might be necessary for the year ended 31 December 2020. Please refer to Note 12 for details.

The auditor's report for the financial year ended 31 December 2019 included a similar qualification on the accuracy and recoverability of the carrying values of HK\$25,156,000 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.

Recoverability of amounts due from a subsidiary - Company level

As at 31 December 2020, 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\$88,360,000 (2019 - HK\$95,125,000).

Management had carried out a review of the recoverability 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\$6,474,000 (2019: HK\$44,863,000) on the non-trade amounts due from the subsidiary during the financial year ended 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 (2019: 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 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 carrying values 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\$65,215,000 (2019: HK\$72,027,000) as at 31 December 2020 and the expected credit loss of HK\$6,474,000 (2019: HK\$44,863,000) recorded in the Company's statement of comprehensive income for the financial year ended 31 December 2020. The auditor's report for the financial year ended 31 December 2019 included a qualification on the accuracy and recoverability of the carrying value of loans of HK\$25,156,000 for the three Australian loans recorded. For the same reasons as highlighted in the preceding paragraph, we were 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\$72,027,000 recorded in the Company's statement of financial position. 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 2020

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 three loans to external parties (2019 - four 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 three loans (2019 - four 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	Carrying amount of loans		Country	Maturity date	Interest rate	
	2020 HK\$'000	2019 HK\$'000			2020 %	2019 %
Scrap metals trading	18,000	18,000	PRC and Hong Kong	Revolving	12	12
Property	18,585	25,156	Australia	30 June 2017	12-48	12 - 48
Personal use	-	2,300	Hong Kong	Revolving	13	13
Trading	4,600	4,600	Hong Kong	Revolving	12	12
Investment	5,000	5,000	British Virgin Islands	Revolving	12	12
	46,185	55,056				

The Group	2020 HK\$'000	2019 HK\$'000
Loans and advances repayable within one year	64,420	71,249
Expected credit losses:		
At beginning	(16,193)	(7,796)
Allowance for expected credit losses (Note 5)	(8,946)	(8,487)
Write-off	8,434	-
Foreign exchange difference	(1,530)	90
At end	(18,235)	(16,193)
Net loans and advances	46,185	55,056

Following the de-registration of one of the borrowers during the 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	2020 HK\$'000	2019 HK\$'000
Australian dollar	18,585	25,156
Hong Kong dollar	27,600	29,900
Total loans and advances	46,185	55,056

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:

- 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
- 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
- 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 2020 and 2019. In aggregate, the Group had entered into underwriting agreements with two (2019 - three) Underwriters for 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.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2020

12 Loans and advances (Cont'd)

The Group

Impairment assessment

The Group has recognised expected credit losses for the loans and advances due from two (2019 - two) Ultimate Borrowers amounting to HK\$8,946,000 (2019 - HK\$8,487,000) in the profit or loss for the current year ended 31 December 2020 after taking into consideration of the estimated projected value of the underlying development properties and the proposed settlement offer received from the borrowers. The details are as follows:

Expected credit losses in respect of FY2020

Despite the past due status for the repayment of loan principal due from two of the Ultimate Borrowers in Australia, there was no subsequent payment to these loans. As a result, the Group had provided for expected credit losses of HK\$8,946,000 (2019 - HK\$8,487,000) on the above loans receivable from the two Ultimate Borrowers in Australia.

The Group's loans and advances comprise six borrowers (2019 - eight borrowers) that represented 100% (2019 - 100%) of the total loans and advances. There is significant credit risk concentration in a few borrowers.

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