

Net Pacific Financial Holdings Limited

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

DISCLAIMER OF OPINION BY AUDITORS ON THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2023 (“FY2023”)

Pursuant to Rule 704(4) of the Listing Manual Section B: Rules of Catalist of the Singapore Exchange Securities Trading Limited (the “**SGX-ST**”), the Board of Directors (the “**Board**”) of Net Pacific Financial Holdings Limited (the “**Company**”) and together with its subsidiaries, the “**Group**”) wishes to announce that the Company’s external auditors, Foo Kon Tan LLP, have issued a disclaimer of opinion (“**Disclaimer Opinion**”) in their Independent Auditor’s Report dated 4 May 2024 (“**Independent Auditor’s Report**”) in respect of the consolidated financial statements of the Group for FY2023 (“**Financial Statements**”).

The basis for the Disclaimer of Opinion is contained in the Independent Auditor’s Report, a copy of which together with the relevant extract of notes to the Financial Statements are attached to this announcement for information.

The Independent Auditors’ Report and a complete set of the Financial Statements will also be contained in the Company’s Annual Report for FY2023 (“**FY2023 Annual Report**”), which will also be released on SGXNet on 4 May 2024. Shareholders of the Company are advised to read this announcement in conjunction with the FY2023 Annual Report.

The auditor’s report dated 13 June 2023 for last financial year ended 31 December 2022 included a similar qualification on the same matters. Auditors’ opinion on the Financial Statements is also modified because of the possible effects of these unresolved matters on the comparability of the current year’s figures and corresponding figures.

The Board would like to provide their comments and views in response to the matters raised in the Independent Auditors’ Report which form the basis of the Disclaimer of Opinion as to whether the Group has control over the specific assets and liabilities identified in Jetwin (defined below) as at 31 December 2023, and consequently unable to determine whether any further adjustments to these amounts were necessary or would have a consequential significant effect on the Group’s Financial Statements and the related disclosures.

Unless otherwise defined, capitalised terms and references used herein shall bear the same meanings ascribed to them in the Financial Statements.

Background information

From 2013 to 2016, the Group had offered and granted loans to external borrower companies to undertake property development projects in Australia (“**Australian Borrowers**”) via an intermediary, Jetwin Investment Pty Ltd (“**Jetwin**”). Jetwin was incorporated in Australia and managed by third parties unrelated to the Group.

Mr Zhou Wen Jie (“**Mr Zhou**”), the Company’s Non-Executive Chairman for the relevant period and a controlling shareholder, in his own personal capacity, has also been extending loans to companies in Australia through Jetwin. Certain loans that Mr Zhou has made in the past were to the same Australian Borrowers whom the Group extended loans to. In respect of certain of such loans, Mr Zhou was also appointed to the board of Australian Borrowers as a nominee of the Group to safeguard the Group’s interests. There were no new loans with similar arrangements disbursed by the Company and Mr Zhou since FY2016. Disclosure on the above arrangement can be found in the Corporate Governance Report of Annual Report 2023 (page 25-26) and prior years’ annual reports commencing from Annual Report 2015.

All the principal loans to the Australian Borrowers were settled in 2019 and 2021 under the 2019 and 2021 Deeds via five completed units (under 2019 Deed) and three units under construction (under 2021 Deed) (collectively “**Properties**”) and cash. As the Properties are registered in the name of Jetwin, they are recorded as assets in the financials of Jetwin, with corresponding liabilities comprised payables owing to the Group and Mr Zhou, the other loan provider.

Following the settlement of loans in 2019 and 2021, confirmation letters (“**Confirmation Letters**”) were signed between the Group and Jetwin, whereby the latter had confirmed that notwithstanding that the Properties were transferred to Jetwin, it agreed to grant security over the Properties to the Group. In addition, unless and until the amount due by Jetwin are fully repaid to the Group, the sale, transfer or disposal of any or all the Properties by Jetwin shall only be made with the prior written consent of the Group amongst other terms and conditions as specified in the Confirmation Letters.

As at 31 December 2023, the amount receivables from Jetwin amounted to HK\$19,867,000.

The following section highlighted in light blue refers to the Disclaimer Opinion extracted from the Independent Auditors’ Report found on pages 61 to 62 of FY2023 Annual Report.

A Control of specified assets and liabilities in Jetwin Investment Pty Ltd (“Jetwin”)

As disclosed in Note 2(d) and Note 14, in accordance with SFRS(I) 10 Consolidated Financial Statements, management has identified specified assets in Jetwin (and related credit enhancements, if any) are the only source of payment for specified liabilities of, or specified other interests in Jetwin. Management is of the view that the Group has no control over the specified assets and liabilities of the deemed separate entity in Jetwin.

The Group may be exposed to or has rights to variability in returns from its involvement with the deemed separate entity in Jetwin and affect the amount of the returns due to the following factors:

- i) As stipulated under the Confirmation Letters, unless and until the amount due by Jetwin are fully repaid to Net Pacific Investment Holdings Limited (“NPIHL”), the sale, transfer or disposal of any or all of the Properties held by Jetwin shall only be made with the prior written consent of NPIHL amongst other terms and conditions as specified in the Confirmation Letters, with such consent being at NPIHL’s absolute discretion. NPIHL may request the disposal of any or all of the Properties held by Jetwin at market rates, and Jetwin shall expeditiously comply with the request; and the terms and conditions of every disposal by Jetwin shall be as reasonably agreed by NPIHL. As such, NPIHL will be entitled to any upside of the proceeds from the sale of the Properties in excess of the original settlement consideration until all monies under the loan agreements and as agreed under the Confirmation Letters between NPIHL and Jetwin have been fully repaid.
- ii) NPIHL also agreed to contribute towards the ongoing maintenance cost and expenses relating to the Properties held by Jetwin in accordance with the relevant percentage of the loans disbursed as specified under the Confirmation Letters. Moreover, the Group also received net rental income from Jetwin on some of the Properties which were leased out to external parties and recognised gain from the disposal of some of the Properties during the year.
- iii) In respect of the trust accounts maintained in trust by an Australian law firm on behalf of Jetwin where the settlement proceeds were deposited into, the Australian law firm has also confirmed that it has the authority to disburse the funds from the trust accounts on the written request of the Executive director of the Company and the other loan provider who is also a controlling shareholder cum director of the Company.

Despite the presence of above factors which may indicate control over the specified assets and liabilities of the deemed separate entity in Jetwin as well as the additional information as described under “Completeness of related party disclosures” of the Basis for Disclaimer of Opinion section of our report, management did not involve an independent accounting specialist to perform a retrospective review to evaluate whether the Group had control over the specified assets and liabilities of the deemed separate entity in Jetwin in the relevant years. As such, we were unable to obtain

sufficient appropriate audit evidence to establish whether there was control or no control, including legal representation and confirmation to validate whether or not the Group has the substantive right and power to direct the relevant activities of the deemed separate entity in Jetwin.

Consequently, we were unable to determine whether any further adjustments to these amounts were necessary or would have a consequential significant effect on the Group's financial statements and the elements making up the consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the current year and corresponding years ended 31 December 2019 to 31 December 2022 and the related disclosures.

The auditor's report dated 13 June 2023 for the financial year ended 31 December 2022 included a similar qualification on this matter. Our opinion on the current year's financial statements is also modified because of the possible effects of these unresolved matters on the comparability of the current year's figures and corresponding figures.

Board's comments

The Board and management of the Company are of the view that there is no effective control over Jetwin as the Group has no equity interest in Jetwin and none of the directors or controlling shareholders of the Group is a director or shareholder of Jetwin.

Following the settlements in 2019 and 2021, the following measures are put in place to safeguard the interest of the Group:

- As settlement proceeds are deposited with the trust account held in trust by an Australian Law firm, Executive Director of the Company and the other loan provider are authorised to manage the account to protect the interest of the Group and the other loan provider.
- Confirmation Letters signed between the Group and Jetwin to ensure that the Properties held by Jetwin on behalf of the Group are properly managed to safeguard the recoverability of the amount receivable from Jetwin;
- As the Properties are vacant, the Group agreed with Jetwin's proposal to lease out the units for rental income, as a form of compensation in place of interest income while waiting for Perth (where the Properties are located) properties market to recover. As the Properties are held by Jetwin on behalf of the Group, the rental income and ongoing maintenance cost are recorded in the books of the Group.

The Board understands that Jetwin has been actively looking for opportunities to venture into other businesses. However, the plans are hampered especially by challenges surrounding the COVID-19 pandemic in the last few years. As Jetwin is not able to diversify into other business, its principal business remains to be an intermediary to the Group and the other loan provider. As a result, the financials of Jetwin comprised mainly the Properties and cash balances which arose from the settlement of debts under the 2019 Deed and 2021 Deed between Jetwin and the underlying borrowers in Australia, and liabilities which comprised mainly payables owing to the Group and the other loan provider. While Jetwin will update the Group on their expansion plan considering the existing working relationship, the expansion or diversification plan of Jetwin is beyond the control of the Group.

Further assessment by accounting specialist and legal advisor to establish whether there was control or no control over Jetwin will take time as the Company has no control over Jetwin while such assessment will require Jetwin's books to be audited over the relevant periods and to grant access to the Company to review their records, all of which the Company has no access to. Upon the recommendations by the Audit Committee, the Company is currently seeking consultation from independent accounting specialists based in Singapore regarding the accounting treatment issues. The Company is awaiting their advice and will provide an update in an announcement when deems appropriate.

Auditors are granted access to the Australian legal advisor managing the trust account for clarifications on their assessment.

Plans in 2024

The Group will be able to recover the amount receivable from Jetwin through the following:

- (1) Up to 31 December 2023, AUD2 million or approximately HKD10.2 million in the trust account held in trust by an Australian law firm has been remitted to a bank account in Hong Kong under the Group. This has reduced amount receivables due from Jetwin from HK\$30.3 million as at 31 December 2022, to HK\$19.9 million as at 31 December 2023.
- (2) Up to today, the five completed units have been sold and sales proceeds received by Jetwin. The Group expects to receive its share of sales proceeds of approximately HK\$6.6 million in early May 2024. This will further reduce the amount receivable due from Jetwin from HK\$19.9 million as at 31 December 2023 to HK\$13.3 million.
- (3) As for the units under construction, we updated in November 2023 that the completion date has been delayed by another 12 - 20 months as the construction sector in Perth, Western Australia is under immense pressure due to lack of building materials, lack of qualified trades people and general labour shortages.

As there has been no update from the builder for the three units, the Credit Committee has in January 2024 decided to obtain further advice from barrister on the prospect of success in relation to the arguments concerning the commencement date of the construction works and the liquidated damages stipulated under Deed 2021 dated 6 August 2021. Based on the advice, the legal advisor has since issued a letter to the builder. We will update shareholders as and when appropriate.

B Completeness of related party disclosures

As disclosed in Note 2(d) and Note 21, in the last financial year ended 31 December 2022, management became aware that the controlling shareholder cum director of the Company held shares in an entity which had investments in the Australian borrowers. There was also a lack of disclosure in the financial statements that he was a creditor of Jetwin Investment Pty Ltd (“Jetwin”) since inception of the loan disbursement in the financial year ended 31 December 2013 and that Jetwin also held equity interest in the Australian borrowers. Management had reviewed this relationship and any other potential relationships and assessed that there was no additional related party disclosure to be made in accordance with SFRS(T) 1-24 Related Party Disclosures for the relevant financial years.

Despite the above, management had determined there was no requirement to engage any independent legal expert to establish whether there had been more related party information to be disclosed in the relevant financial years concerning the Group, the controlling shareholder cum director of the Company, Jetwin and the Australian borrowers. As such, we were unable to obtain sufficient appropriate audit evidence to ascertain the completeness of related party disclosures among the Group, the controlling shareholder cum director of the Company, Jetwin and the Australian borrowers.

Furthermore, management did not involve an independent accounting specialist to perform a retrospective review based on the above information to evaluate whether the Group had control over the specified assets and liabilities of the deemed separate entity in Jetwin in the relevant years as described under “Control of specified assets and liabilities in Jetwin Investment Pty Ltd (“Jetwin”)” of the Basis for Disclaimer of Opinion section of our report.

The auditor’s report dated 13 June 2023 for the financial year ended 31 December 2022 included a similar qualification on this matter. Our opinion on the current year’s financial statements is also modified because of the possible effects of these unresolved matters on the comparability of the current year’s and corresponding disclosures.

Board's comments

As explained under Section A above, the Board and management of the Company are of the view that there is no effective control over Jetwin as the Group has no equity interest in Jetwin and none of the directors or controlling shareholders of the Group is a director or shareholder of Jetwin. The measures put in place subsequent to settlements in 2019 and 2021, as disclosed in Section A above, are to safeguard the interest of the Group.

The management continued to provide to its best ability the information requested by auditors, including company search on Jetwin and the Australian Borrowers, clarification with Australian legal advisor to assist the auditors on the matter.

To the best of the Board's knowledge, Jetwin viewed property development as investment opportunities and decided to invest in the Australian Borrowers. Jetwin did not participate in the daily operations of these Australian Borrowers. Company searches on Jetwin and Australian Borrowers were made available by the Company to the auditor for verification purposes since the first loan disbursement in 2013.

The management became aware that Mr Zhou held 2,515,429 shares, representing approximately 2.6% in an entity which is the holding company of the development managers for the projects undertaken by the Australian Borrowers from June 2017 ("**Partner Company**") only in April 2023. The ownership in certain Australian Borrowers were transferred to related companies of the Partner Company based on the terms and conditions of the settlement deed signed in 2019 and 2021.

Given the Partner Company's interest in the Australian Borrowers only commences after the 2019 Deed and 2021 Deed, apart from the disclosure on Mr Zhou's shareholdings in the Partner Company which the management only became aware of in April 2023 (at which time the Group has settled all outstanding amounts owing from the Australian Borrowers pursuant to the 2019 Deed and 2021 Deed), the management is of the view that there is no other disclosure required as there is no relationship between the Group and the Partner Company during the period from when Mr Zhou first held shares in the Partner Company in 2017 to when full settlement with the Australian Borrowers were reached in 2019 and 2021.

C Classification and measurement of amounts owing from Jetwin

In accordance with SFRS(I) 9 Financial Instruments, the Group determines if a financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Management is of the view that the business model of the Group has not changed and there are proper loan documentations in place with Jetwin which support that the contractual terms of the amounts due from Jetwin will give rise on specified dates to cash flows that will result from collecting contractual cashflows from the principal amounts outstanding from Jetwin. The net rental income received from Jetwin is a form of compensation in place of interest income since the debt is interest-free.

As highlighted under "Control of specified assets and liabilities in Jetwin Investment Pty Ltd ("Jetwin")" of the Basis for Disclaimer of Opinion section of our report, the Group received net rental income from Jetwin on some of the Properties which were leased out to external parties and recognised gain on disposal of some of the Properties during the year. Furthermore, NPIHL will be entitled to any upside of the proceeds from the sale of the Properties in excess of the original settlement consideration until all monies under the loan agreements and as agreed under the Confirmation Letters between NPIHL and Jetwin have been fully repaid. As a result, these may give rise on specified dates to cash flows that may not be solely payments of principal and interest on the principal amount owing from Jetwin. In addition, management did not involve an independent accounting specialist to perform a retrospective review to evaluate whether the Group had control over the specified assets and liabilities of the deemed separate entity in Jetwin.

In the absence of other satisfactory evidence, we were thus unable to obtain sufficient appropriate audit evidence to satisfy ourselves as to the proper classification and measurement of the principal amounts outstanding from Jetwin recorded on the consolidated statement of financial position of the Group as of 31 December 2023 and the relevant corresponding years. Consequently, we were unable to determine whether any further adjustments to these amounts were necessary or would have a consequential significant effect on the Group's financial statements and the elements making up the consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended 31 December 2023 and the relevant corresponding years and the related disclosures.

The auditor's report dated 13 June 2023 for the financial year ended 31 December 2022 included a similar qualification on this matter. Our opinion on the current year's financial statements is also modified because of the possible effects of these unresolved matters on the comparability of the current year's figures and corresponding figures.

Board's comments

As explained under Section A above, the Board and management of the Company is of the view that there is no effective control over Jetwin as the Group has no equity interest in Jetwin and none of the directors or controlling shareholders of the Group is a director or shareholder of Jetwin. The measures put in place subsequent to settlements in 2019 and 2021, as disclosed in Section A above, are to safeguard the interest of the Group.

Management is of the view that the business model of the Group has not changed and there are proper documentations in place with Jetwin which support the classification and measurement at amortised cost.

Impairment assessment on the amount receivable from Jetwin has been carried out since management continues to view this as a financial asset at amortised cost. As the amount receivable from Jetwin is supported by independent valuation of Properties and cash proceeds deposited in a trust account with a reputed Australian law firm, the Board is of the view that there will not be material differences in fair value of the amount receivable from Jetwin.

The Board is of the view that sufficient information has been disclosed for trading of the Company's securities to continue in an orderly manner and confirms that all material information in relation to the Group has been provided for trading of the Company's shares to continue.

Rule 1303(3) of the Catalist Rules does not apply to the Company's present situation as the Group and Company will be able to operate as a going concern. The Group has cash and cash equivalents of HK\$47,246,000 as at 31 December 2023 and has sufficient cash resources to satisfy its working capital requirements and obligations within the next 12 months after the financial year ended 31 December 2023 to enable it to continue operations and meet its liabilities as and when they fall due. Accordingly, the Board is of the view that no suspension of trading of the Company's shares pursuant to Rule 1303 of the Catalist Rules.

Shareholders of the Company are advised to read this announcement in conjunction with the Independent Auditor's Report and the Company's FY2023 Annual Report and to read the aforementioned documents in their entirety.

By Order of the Board

Ong Chor Wei @ Alan Ong
Chief Executive Officer and Executive Director
4 May 2024

*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 announcement, including the correctness of any of the statements or opinions made or reports contained in this announcement.*

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