

Net Pacific Financial Holdings Limited

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

RESPONSES TO QUESTIONS FROM THE SECURITIES INVESTORS ASSOCIATION (SINGAPORE) (“SIAS”) IN RELATION TO THE ANNUAL GENERAL MEETING TO BE HELD ON 28 APRIL 2021

The Board of Directors (the “**Board**”) of Net Pacific Financial Holdings Limited (the “**Company**” and together with its subsidiaries, the “**Group**”) would like to thank shareholders for registering to attend the Company’s Annual General Meeting (“**AGM**”) to be held on 28 April 2021 at 11:00 am by electronic means.

Notwithstanding that the Company did not receive any questions from its shareholders in respect of the Company’s annual report for the financial year ended 31 December 2020 (“**FY2020 Annual Report**”), the Board is pleased to provide its responses to questions received from SIAS in relation to the FY2020 AGM.

The Company’s responses are set out below:

Q1. As noted in the chairman’s message, the group has made a strategic decision to cease new business in Australia and will focus on the recovery of its outstanding loans from its existing borrowers.

Details of the group’s loans can be found on page 75 (Note 12 - Loans and advances).

As disclosed in Note 12, one of the group’s borrowers from prior financial year has been deregistered in the financial year ended 31 December 2020. Management had written off the loans amounting to HK\$8.4 million which had been fully impaired in previous years. In FY2020, the group has further impaired an amount of HK\$8.95 million relating to the property loans in Australia. The loans to the Australian borrowers matured in June 2017 and are past due for repayment. There was no repayment made for all three Australian loans in 2020.

- (i) **Can the company disclose the identities of the three Australian borrowers?** Please include the shareholders and directors of the borrowers and provide an update on the financial status of the three Australian borrowers.

The Board is of the view that the identities of the three Australian borrowers (the “**Borrowers**”) and their shareholders and directors are confidential information and will hence not be disclosing this information in this announcement. The Company is in the midst of negotiations with the Borrowers for the repayment of the loans. The aforementioned loans pertain to the Group’s loans which have been disclosed in page 23 of the Company’s FY2020 Annual Report dated 7 April 2021. The Company has since ceased disbursement of any new loans with similar arrangements since FY2016.

The Borrowers are engaged in property development in Perth, Western Australia.

Based on the latest information available on such loans including the estimated projected value of the underlying developments and the last proposal received from the Borrowers which is still under negotiation, the surplus funds from the projects or the proposed settlement are not sufficient to repay the outstanding principals of the loans. As such, an allowance for impairment loss of HK\$8.95 million in respect of the Australian loans has been made in FY2020, taking into account the difference between the principal owed and the latest settlement proposal from the Borrowers. The Management and Board believe that the balance of the amount owing is recoverable in view of the fact that the Company had previously recovered two (2) loans granted by the Group to the Borrowers in 2019. Please refer to the Company’s announcement dated 4 July 2019, full year FY2020 financial results announcement dated 25 February 2021 and FY2020 Annual Report dated 7 April 2021 for more information.

- (ii) Is the further impairment of the property loans in FY2020 a sign that the creditworthiness of the borrowers has deteriorated and that the chances of collection are lower?**

The impairment is arrived at based on the latest information available on such loans including the estimated projected value of the underlying developments and the last proposal received from the borrowers which is still under negotiation.

While there were a number of proposals under discussion during FY2020, there was no settlement agreement reached which were in the best interest of the Group as at the date of this announcement. The Company will continue to engage in negotiations with the borrowers in Australia through legal advisors in Australia, and make necessary announcements when there are material developments.

- (iii) Who is leading the group's discussion with the borrowers in Australia? What are the group's options in enforcing its rights? What are the efforts by management to collect on these outstanding debts?**

The Credit Committee comprises Mr Ong Chor Wei @Alan Ong, Mr Cheung Ting Chor, Mr Zhou Wen Jie and Mr Ben Lee who are leading the Group's discussion with the borrowers in Australia.

The management's efforts to collect on these outstanding debts include carrying out negotiations with the borrowers with advice from legal advisors and other professionals including tax advisors in Australia.

Furthermore, on a quarterly basis, the Credit Committee updated the Risk Management Committee and Board on the Group's loan portfolio, the background of the borrowers and the risk exposure of the Group and whenever there were new loans submitted for review and approval, and the progress of the negotiations with the Borrowers.

- (iv) Given the negative outcomes in Australia, will the board be reviewing the group's approval systems and processes, including credit assessment, loan documentation, risk grading and due diligence?**

In light of the slow-down in the property market in Australia and uncertainty in the development of the Group's existing loan portfolio, the Board has given clear instructions to the Credit Committee not to increase the loan portfolio exposure to customers in Australia and to continue focusing on negotiations on recovering the loans.

The Board regularly reviews and improves its business and operational activities to identify areas of significant business risks as well as appropriate measures to control and mitigate these risks, and will continue doing so in FY2021.

Based on the internal auditors' report which reviewed the system and processes of the financing business and external auditors' review of internal controls in the course of the annual statutory audit of the Company's financial statements, the Board is of the view that the Group's existing system including credit assessment, loan documentation, risk grading and due diligence are adequate.

- (v) How robust is the group's monitoring system in identifying early symptoms of problematic loan accounts?**

The Risk Management Committee is assisted by the Credit Committee in reviewing and updating the Board on the Group's loan portfolio such as the background of the borrowers and the risk exposure of the Group. The review is performed on a quarterly basis, while the Credit Committee meets regularly to address any problematic loan accounts, in particular, the negotiations with the borrowers in Australia.

The Company also monitors the Group's cash flows regularly to assess the Group's and the Company's ability to continue as a going concern.

Q2. The independent auditor of the company has issued a qualified opinion on the financial statements of the company and its subsidiaries (page 49). The bases for the qualified opinion are:

Accuracy and recoverability of the loans to Australian borrowers	FY2020: HK\$18,585,000 FY2019: HK\$25,156,000
Recoverability of amounts due from a subsidiary - Company level	FY2020: HK\$65,215,000 FY2019: HK\$72,027,000 (non-trade amounts due from subsidiary)

The independent auditor has stated that it was unable to obtain sufficient appropriate audit evidence on the recoverability of opening balance of the said loans and of the non-trade amounts due from the subsidiary.

(i) What was the audit evidence required by the independent auditor?

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 in Australia have been advised by their legal advisors not to provide or approve any documents in relation to these loans in the midst of the negotiation.

(ii) What assistance did the audit committee provide to the independent auditor, especially in communicating and coordinating with the subsidiary?

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\$88,360,00.

The Company 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 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 recorded in the subsidiary's books can be recovered in full, based on the latest settlement proposal from the Borrowers.

For the same reasons as highlighted in the preceding paragraph and highlighted under the Basis for Qualified Opinion section of Auditors Report on the accuracy and recoverability of the loans to the Australian borrowers, in the absence of other satisfactory evidence, auditors were unable to obtain sufficient appropriate audit evidence to satisfy themselves as to the accuracy and recoverability of the carrying values of the said loans.

In the absence of alternative audit evidence, the Company's independent auditors 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 as at 31 December 2020 and the expected credit loss of HK\$6,474,000 recorded in the Company's statement of comprehensive income for the financial year ended 31 December 2020 at Company level.

The AC held teleconferences and meetings with Management to understand the background, facts and causes of the current situation of the said loans. AC led the discussion with the auditors on the above to explain that full impairment for the non-trade amounts due from the subsidiary is not required as the management is of the view that the Australians loan are recoverable, taking into account the latest settlement proposal from the Borrowers as well as the fact that the Company had previously recovered two (2) loans granted by the Group to the Borrowers in 2019. However, as auditors are unable to ascertain that the Australian borrowers are able to pay the outstanding principals as at 31 December 2020, a full provision is required. As such, there is an additional qualified opinion on the recoverability of amount due from a subsidiary at Company level, as the provision of impairment decided by the Company is lower than full provision.

(iii) Can the audit committee (AC) chairman, Mr Tso Sze Wai, help shareholders understand his personal involvement in the audit as the newly appointed audit committee chairman?

Mr Tso Sze Wai was appointed to the board on 31 July 2020. Mr Tso is also the chairman of the audit committee and risk management committee, a member of the remuneration committee and a member of the nominating committee of the company. Mr Tso has over 15 years of experience in accounting and finance.

The Audit Committee including Mr Tso Sze Wai is constantly updated on the progress of the audit, and reviewed the significant financial reporting issues and judgements so as to ensure the integrity of the financial statements of the Company and any announcements relating to the Company's financial performance. The Audit Committee also reviewed the adequacy, effectiveness, independence, scope and results of the external audit and internal audit function.

(iv) Can the AC chairman provide shareholders with greater clarity on its plans to resolve the outstanding audit issues?

The AC has tasked the Credit Committee to reach a settlement with the Australian borrowers. While there were a number of proposals under discussion during FY2020 year, there was no settlement agreement reached which were in the best interest of the Group as at the date of this announcement.

The Company will make subsequent announcements to update its shareholders when there are material developments.

(v) Given the qualified opinion and the significant matters highlighted in the independent auditor's report, has the board considered if it would be necessary to suspend the trading of the securities of the company on SGX-ST in the interest of maintaining a fair, orderly and transparent market?

The Board is of the view that suspension of trading of its shares is not necessary based on the following points:

- (i) As at 31 December 2020, the Group has cash and cash equivalents of HK\$41,707,000.
- (ii) The Group reported a positive working capital position of HK\$5,621,00 in FY2020.
- (iii) The Company will continue to closely monitor the Group's cash flows to assess the Group's and the Company's ability to continue as a going concern.
- (iv) The Board believes that the Group will have sufficient cash resources to satisfy its working capital requirements within the next 12 months in 2021 to enable it to continue operations and meet its liabilities as and when they fall due.

Q3. The board comprises one executive director and seven non-executive directors. The directors and the composition of the board committees are shown in the table below:

The biographies of the directors can be found on pages 2 and 3 of the annual report. As part of the board's renewal process, Mr. Tso Sze Wai was recently appointed as an independent director on 31 July 2020, in addition to the retirement of two former independent directors in July 2020.

The nominating committee (NC) has disclosed that the current board of eight directors, four of which are independent directors, is appropriate and effective after taking into consideration the nature and scope of business as well as the current and future plans of the group.

(i) Can the NC justify its view that the current board is an “appropriate and effective” one? What guidance has the board provided to management over time to demonstrate the board’s entrepreneurial leadership?

The Board reviews the size of the board regularly, taking into consideration the nature and scope of business as well as the current and future plans of the Group, and is of the view that the current Board size of eight (8) Directors, of which four (4) are Independent Directors, is appropriate and effective.

The current Board and Board Committees comprise Directors who, as a group provide the appropriate balance and mix of skills, knowledge, experience and other aspects of diversity in order to avoid groupthink and foster constructive debate.

The current Board composition provides a diversity of skills, experience, and knowledge and is represented in the table below:

	Number of Directors	Proportion of Board
Core competencies		
Accounting or finance	6	75%
Business management	8	100%
Legal or corporate governance	6	75%
Relevant industry knowledge or experience	7	88%
Strategic planning experience	8	100%
Customer based experience or knowledge	6	75%
Information Technology	4	50%
Gender		
Male	8	100%
Female	-	-

By practising diversity at Board level, the Board believes that such differences may, collectively, enhance the attainment of corporate strategic objectives and to reach greater heights of achievement. However, it is noted that differences should be appropriately balanced so that the Board can function as a whole, and effectively within its leadership role in the Company.

As the Group continues to grapple with the uncertainties arising from the COVID-19 pandemic, the Board members are engaged in discussions with management on how to position the Group favourably for future opportunities and generate returns to shareholders. The management is working on business proposals introduced by various Board members to diversify the Group's business so as to enhance shareholders value. Nevertheless, there is no certainty that any of such deliberations or discussions will come to fruition at this juncture. Should there be material development on these fronts, the Company will update Shareholders accordingly.

Provision 2.4 of the Code of Corporate Governance 2018 issued by the Monetary Authority of Singapore requires the company to disclose its board diversity policy (including its objectives) and the progress made towards implementing the board diversity policy in the company's annual report.

(ii) Can the board elaborate further on its board diversity policy and its objectives as required by Provision 2.4?

The Board has taken the following steps to maintain or enhance its balance and diversity:

- (a) The NC conducts an annual review to assess whether the existing attributes and core competencies of the Board are complementary and whether the existing attributes and core competencies of the Board enhance the efficacy of the Board; and
- (b) An annual evaluation by the Directors of the skill sets the other Directors possess, with a view to understand the range of expertise which is lacking by the Board.

The NC will consider the results of the evaluation in its recommendation for the appointment of new Directors and/or the reappointment of incumbent Directors.

In addition, at the annual general meeting scheduled to be held on 28 April 2021, the company is proposing to re-elect the following directors:

Mr Chin Fook Lai
Mr Ong Chor Wei @ Alan Ong
Mr Chung Wai Man
Mr Tso Sze Wai
Mr Francis Lee Fook Wah
Mr Wu Houguo

The additional information on directors seeking re-election is shown on pages 24 to 38 of the annual report.

The company is proposing to re-elect Mr Francis Lee Fook Wah and Mr Wu Houguo as independent directors under a two-tier vote. If any of the above non-executive directors pass the two-tier vote, he will, upon re-election, remain as an independent director of the company.

The company has stated that should any of the above non-executive directors fail the two-tier vote, he will be deemed to be independent up to 31 December 2021 and be redesignated as a non-independent director from 1 January 2022 onwards, as required by the listing rules.

(iii) Can the board help shareholders understand if the board/nominating committee has deliberated on redesignating directors who fail the two-tier vote immediately (after the results are known) instead of delaying until 1 January 2022?

The Board recognises that over time, an Independent Director may develop a better understanding of, and obtain greater insights into, the Group's business, operations and culture. Despite having served beyond 9 years, as an Independent Director, he can still continue in his role to provide significant and valuable contribution to the Board as a whole, and as an independent and objective check on Management. As such the Company is proposing to re-elect Mr Francis Lee Fook Wah and Mr Wu Houguo as independent directors under a two-tier vote. If any of the above non-executive directors pass the two-tier vote, he will, upon re-election, remain as an independent director of the company.

The Board/Nominating Committee has deliberated that should any of the above non-executive directors fail the two-tier vote, he will be deemed to be independent up to 31 December 2021 and be re-designated as a non-independent director from 1 January 2022 onwards, as required by the listing rules.

At the same time, the Board will commence the search for suitable candidate(s) to be appointed to the Board to fill the vacancy in the Audit Committee, Nominating Committee and Remuneration Committee to meet the requirement of having at least one director being a resident in Singapore to ensure compliance with the Catalist Rules and the Code of Corporate Governance 2018 in the event the aforementioned Directors are redesignated as non-independent directors from 1 January 2022 onwards.

By Order of the Board

Mr Ong Chor Wei @ Alan Ong
Chief Executive Officer and Executive Director
27 April 2021

*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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