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PACIFIC ONLINE LIMITED

太平洋網絡有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 543)

SUPPLEMENTAL ANNOUNCEMENT TO THE ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2021

Reference is made to the announcement of Pacific Online Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) dated 28 March 2022 in relation to the annual results of the Group for the year ended 31 December 2021 (the “**2021 Annual Results Announcement**”) and the annual report of the Group for the year ended 31 December 2021 (the “**2021 Annual Report**”). Unless otherwise defined, terms used herein shall bear the same meanings as defined in the 2021 Annual Results Announcement and the 2021 Annual Report.

The consolidated financial statements of the Group for the year ended 31 December 2021 had been subject to qualified opinion of the independent auditor of the Company (the “**Auditors**”) on the basis as set out in the paragraph headed “Basis for qualified opinion” under the section “Independent Auditor’s Report” in the 2021 Annual Report (the “**Qualified Opinion**”). The Board wishes to supplement the following:

Cause of Qualified Opinion

Reference is made to the section headed “Extract of Independent Auditor’s Report on the Company’s Consolidated Financial Statements for the Year Ended 31 December 2021” of the 2021 Annual Results Announcement, where it was disclosed that the Group had indirect exposure to certain investments in cryptocurrencies (the “**Cryptocurrency Investments**”) through its investment in a private fund (the “**Fund**”) as limited partners. The Group neither have control nor significant influence over the Fund. As at 31 December 2021, the Group held around 27% interests of the Fund.

As disclosed in the 2021 Annual Results Announcement, the Cryptocurrency Investments held by the Fund were mainly stored in two custodians appointed by the Fund (the “**Custodians**”) and in the wallets of the Fund under self-custody. Upon receipt of the

requests from the Auditors to provide audit evidence or supporting documents regarding audit of the Cryptocurrency Investments, the Company actively liaised with the sole general partner of the Fund to make arrangements and to provide the Auditors the information and documents requested. Most of the requests were made available to the Auditors to the extent possible, except the following:

- (1) After the Auditors obtained and reviewed the service organization control reports on the internal controls (“**SOC Report**”) of one of the Custodians, it was noted that certain key controls related to management of the private keys and the associated digital wallets were not covered in the SOC Report. In addition, it was advised by the Fund that there would not be available SOC Report of the other Custodian before the audit report date. The Auditors then requested to perform audit procedures on understanding of the relevant internal controls of both Custodians and obtaining the related control documents directly from the Custodians as alternative procedures, and to arrange meeting with the other Custodian that did not provide any SOC Report in person or via call to verify the details of Cryptocurrency Investments stored in that Custodian as of 31 December 2021. However, as additional costs would be incurred and it took time to arrange and communicate the Auditors’ requests to the Custodians, the Fund failed to coordinate with both Custodians to address the Auditors’ requests before the audit report date.
- (2) As to the site visit to the Fund to perform audit procedures relating to the cryptocurrencies stored in the Fund’s wallets under self-custody, given the wallets were created before the Auditors were notified, the Auditors would not have a chance to attend the wallets and keys generation ceremony of the Fund. However, this represented the most fundamental audit procedure with no alternative for testing the sole ownership to the cryptocurrencies stored in the Fund’s wallets unless the Fund was willing to create new dedicated wallets and transfer the cryptocurrencies from its existing wallets to the new wallets. However, given there would be additional costs incurred for setting up new wallets and transfer of the cryptocurrencies, the Fund did not take these actions. In addition, after considering the local pandemic situation and the required measures implemented in New York to the health safety of the Fund’s staffs, the Fund refused the Auditors’ request to perform any audit work on site.

The views of the management and audit committee of the Company and the Company’s action plan

Since August 2021, in light of the potential difficulties in the audit procedures involving Cryptocurrency Investments, the management of the Company has been actively engaging in discussions with the Auditors and the Fund respectively to try to resolve the issues that may give rise to the Qualified Opinion. The management has been trying its best to liaise with the Auditors at one end, and with the Fund and the Custodians on the other since then and until the completion of the 2021 audit. Given that, as stated above, (i) the Group has no control over the management and access to the operation of

the Fund, and certain of the Cryptocurrency Investments are held by the Custodians but not the Fund itself, the Auditors were unable to gain direct access to the Custodians on their internal records nor the digital wallets under the self-custody of the Fund storing the Cryptocurrency Investments; (ii) the Custodians are not solely providing the custody services to the Fund, but in fact they are cryptocurrency trading platforms which also serve other public investors; (iii) it was unfeasible for the Fund to set up new wallets and to transfer the cryptocurrencies to the new wallets, where the Auditors could be allowed to perform the necessary audit procedure; (iv) the Fund and the Custodians are physically located in the United States where the pandemic situation was fierce during the audit period and created impracticability for the Auditors' physical visit; despite the fact that the Company has tried its best to make requests to the Fund and the Custodians but they were unable to provide sufficient appropriate evidence to satisfy the Auditors' requirements. In addition, the Fund invests in a wide variety of Cryptocurrency Investments which further increased the amount and difficulty of the audit work required to be performed.

The Company recognizes that the issues giving rise to the Qualified Opinion were due to external circumstances that were beyond the control of the Group. The Board was satisfied that the management has taken all possible steps with the Auditors, the Fund and the Custodians with an aim to prevent and resolve the Qualified Opinion. Furthermore, the Board recognizes that the Company has been invested in and provided with audited financial statements from the Fund since 2014 and that the RMB39,036,000 value of the Cryptocurrency Investments at year end constitutes only a small percentage of the Company's total assets as of 31 December 2021. However, given the stringent requirements by the Auditors, the Board reluctantly agrees with the Auditors' view in respect of the Qualified Opinion.

Continuous discussions have been made and meetings were held between the audit committee of the Company (the "**Audit Committee**") and the Auditors to discuss the Qualified Opinion, the circumstance of the Fund and the difficulties encountered during the audit in relation to performing audit procedures on Cryptocurrency Investments.

The Audit Committee had critically reviewed the facts and circumstances of the conclusion of the Company's management and fully appreciated the reasons leading to the Qualified Opinion and the fact that the management of the Company had made efforts to obtain the information and documents requested by the Auditors. Having considered that the failure to verify the existence and sole ownership of the Cryptocurrency Investments stored in the dedicated wallets of the Fund was not voluntary and best efforts were made, the members of the Audit Committee agreed with the Qualified Opinion and the basis of such Qualified Opinion and the management's position concerning the Qualified Opinion.

The Company plans to take the following actions with a view to resolving and removing the Qualified Opinion for the Group's consolidated financial statements for the year ending 31 December 2022:

- (1) Before the relevant SOC Report of the two Custodians are obtained from the Custodians and their independent auditors, the Company will communicate with the Auditors in advance the information and audit evidence required in relation to the audit involving cryptocurrencies. The Company will then forward the Auditors' audit requested information to the Fund, and use its best endeavour to liaise with the Fund in relation to relevant audit requested information to facilitate the audit requested information to be contained in the SOC Report and the Auditors could be given access to the information or document required for the audit.
- (2) In respect of the Fund's wallet under self-custody, the Company will confirm with the Auditors and use its best endeavour to communicate with the Fund in relation to the audit procedure required. The Company will request the Fund, where feasible, to set up new wallets and to notify the Company in advance should the Fund decide to set up new wallets, and will connect the Auditors with the Fund to the extent possible for the purpose of fulfilling the relevant audit procedures, with an aim to resolve the Qualified Opinion upon satisfaction of such audit procedures.

Potential impact on the Company

Shareholders and potential investors shall note that since the Group is uncertain as to whether the fair value of the Group's investment in financial assets as at 31 December 2021 was fairly stated in the 2021 Annual Report, and as to whether any fair value changes or any impairment loss should be charged to profit or loss for the year ended 31 December 2021, any adjustments found to be necessary in respect of the above would affect the Group's net assets as at 31 December 2021 and the Group's financial performance for the year then ended, and the related disclosures thereof in the consolidated financial statements.

Save as disclosed above, the Qualified Opinion will not have any negative impact on the Company's liquidity or financial position.

On behalf of the Board
Pacific Online Limited
Lam Wai Yan
Chairman

Hong Kong, 20 July 2022

As at the date of this announcement, the Board comprises 3 executive directors, namely, Dr. Lam Wai Yan, Mr. Ho Kam Wah and Mr. Wang Ta-Hsing; and 3 independent non-executive directors, namely, Mr. Tsui Yiu Wa, Alec, Mr. Thaddeus Thomas Beczak and Mr. Lam Wai Hon, Ambrose.