NEW SILKROUTES GROUP LIMITED

(Incorporated in the Republic of Singapore)
(Company Registration No. 199400571K)
(the "**Company**")

RESPONSES TO SIAS QUERIES ON THE COMPANY'S ANNUAL REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020

The Board of Directors (the "**Board**") of the Company (and together with its subsidiaries, the "**Group**") has received a few queries from the Securities Investors Association (Singapore) ("**SIAS**") in relation to the Company's annual report for the financial year ended 30 June 2020 and wishes to provide its responses to the queries from the SIAS as follows:

1. **<u>SIAS Query:</u>**

On 15 October 2020, the company announced the resignation of Dr Goh Jin Hian. Prior to 1 August 2020, Dr Goh was the executive director and CEO. From 1 August 2020 to 30 September 2020, Dr Goh was the executive chairman and CEO before being redesignated as non-executive chairman on 1 October 2020.

The group has also appointed Dr VicPearly Wong as Chief Executive Officer with effect from 1 October 2020. Dr Wong is a specialist orthodontist by profession. Dr Wong was appointed as Clinical Director (Dental) of the Healthsciences International Pte Ltd after the group acquired the Orthodontics and Dental companies she founded.

The company's former chairman, Mr Pao Kiew Tee retired with effect from 1 August 2020. Mr Pao Kiew Tee was first appointed on 31 October 2016.

On 20 October 2020, the company announced that Mr Darrell Lim Chee Lek has been appointed as the acting independent non-executive chairman of the board.

The current board composition is as follows:

<u>Board of Directors</u>

Mr Darrell Lim Chee Lek	Acting Independent Non-Executive Chairman and Lead Independent Director
Mr Shen Yuyun	Executive Director
Mrs Chen Chou Mei Mei Vivien	Independent Non-Executive Director
Dr Chua Soon Kian Andrew	Non-Independent Non-Executive Director
Mr Chua Siong Kiat Alex	Independent Non-Executive Director

(i) With the numerous and abrupt changes to the board, can the board help shareholders understand if it has affected the group's operations, especially as the operating subsidiaries continue to grapple with the pandemic?

(ii) Has the nominating committee (NC) reviewed the overall desired competency matrix of the board and identified any gaps in skills or competencies that could be addressed in future director appointments?

(iii) What is the board's search and nomination process for directors, especially independent directors and chairman of the board? The board announced the appointment of Mr Darrell Lim Chee Lek as the acting independent non-executive chairman of the board on 20 October 2020 following the resignation of Dr Goh. Mr Lim was recently appointed to the board on 1 August 2020. Mr Lim also holds the role of an executive director in BRC Asia Limited. How was Mr Lim selected as the acting independent chairman? Can the board confirm that it is reviewing the board's composition?

(iv) Will the board be reviewing the group's strategic growth plans and putting in place appropriate internal controls to safeguard the interests of shareholders?

Company's Response:

(i) Dr Chua Soon Kian Andrew and Ms Chen Chou Mei Mei Vivien has been with the Board since 2019 and 2015 respectively. Whilst the rest of the Board members of Mr Darrell Lek Chee Lek and Mr Chua Siong Kiat are new, they bring a wealth of experience to the Board. Dr VicPearly Wong has served as Clinical Director of HSI and has worked closely with the management on clinical matters and potential overseas collaborations since 2017. Operations in HSI are reaching pre Covid-19 levels and hitting targets set for 1QFY21. Oil trades are grappling from the pandemic and economic slowdown but its ship chartering is business as usual. The Board is fully committing to ensuring minimum disruption to the Group's operations and is actively supporting the newly appointed CEO in this time of transition and during this pandemic crisis and global economic slowdown.

(ii) The Nominating Committee (the "**NC**") reviews periodically the competency matrix of the Board and the effectiveness of the Board as a whole and when it identifies any gaps in skills or competencies, it will endeavour to fill such gaps in future director appointments.

(iii) For the appointment of new Directors to the Board, the NC would, in consultation with the Board, evaluate and determine the selection criteria (which includes skills, knowledge, expertise, experience and character). The NC would review and evaluate CVs of potential directors, whether suggested by other Board members, auditors, lawyers, other professionals or independent board post services. The potential directors will also be reviewed by the board upon recommendation of the NC.

As the post of chairman was vacated suddenly, the Nominating Committee and the Board considered it important to have, in the interim, an acting chairman who is independent. The Mr Darrell Lim, with his working experience and professional qualifications was considered by the NC, with the unanimous concurrence of the Board, to be the most appropriate candidate to be appointed as acting chairman. The NC and the Board will be reviewing the Board's composition and will update shareholders if there are any changes or new appointments to the Board.

(iv) The Board will be reviewing the Group's strategic growth plans. The AC and the Board will work with the Management to put in place appropriate internal controls to safeguard the interests of shareholders.

2. SIAS Query:

Would the board/management provide shareholders with greater clarity on the following operational and strategic matters? Specifically:

(i) Healthcare: As noted in the statement by the (then-)chairman and CEO, the group has plans to expand its network of clinics, especially in the specialist services, as a vertical integration of its primary clinic services. The plan has been put on hold until the economy re-opens fully. Can management help shareholders understand the specialisation areas that the group is looking at? In addition, are there plans to open new dental and GP clinics?

(ii) Shanghai Fengwei: The group made a timely acquisition of Shanghai Fengwei in 2019. Shanghai Fengwei manufactures non-woven material which is used to manufacture personal protective equipment (PPE) needed in the fight against COVID-19. In FY2019, Shanghai Fengwei was acquired for S$12.5 million. As disclosed on page 89, Shanghai Fengwei would have contributed US$18,893,658 and US$1,713,584 in revenue and net profit respectively had the acquisition occurred on 1 July 2018 (for the 12-month period from 1 July 2018 to 30 June 2019 which was before the pandemic).

However, as announced on 27 May 2020, the company elected to appoint Shanghai Minlin to manage and expand the business of the Shanghai Fengwei till 31 December 2021 for a guaranteed profit of S$2,000,000 per financial year. The payment of S$4 million was received by the company upfront on 21 May 2020 (earlier than the announcement) and it appears that the 2-year arrangement was backdated to 1 Jan 2020, after the demand for non-woven material soared due to the pandemic. The company has disclosed its rationale on page 7, pages 14-15 and pages 49-50. In addition, it would appear that the company had signed the agreement on 18 April 2020 when the counterparties were only legally incorporated 4 days later on 22 April 2020.

The arrangement with Shanghai Minlin is also the one of the bases for disclaimer of opinion by the independent auditor. The independent auditor was unable to obtain sufficient appropriate evidence on the business rationale and commercial substance of the management arrangement with Shanghai Minlin.

Would the independent directors help shareholders understand if they had approved the arrangement with Shanghai Minlin for $2 million per annum when global demand for non-woven material soared following the COVID-19 outbreak?

How was Shanghai Minlin selected? How was the management fee of $2 million determined?

Did the audit committee look into the business rationale and the commercial substance of the agreement? Did the audit committee investigate the validity of the agreement given that the agreement was entered into when the entities were not incorporated?

Can the board confirm that Shanghai Minlin is an independent third-party and that the arrangement is in the normal course of business, on normal commercial terms and is not prejudicial to the interests of the company and its shareholders?

Can the board follow up on the 27 May 2020 announcement and confirm that none of the directors or controlling shareholders of the company has any interest, direct or indirect, in the above transactions other than through their shareholdings in the company?

Would the board be reviewing the circumstances around the payment and receipt of the $4 million in management fees from Shanghai Minlin? As noted by the independent auditors, the consideration of US$2,828,400 (S$4,000,000) was received by the company in Singapore dollars on 21 May 2020 (prior to the announcement) through a Singapore incorporated company that is also a shareholder of the Company (page 49).

In addition, would the board be reviewing (a) consultancy and marketing fees amounting to US$1,267,708 under the "Management agreement" and (b) total consultancy and marketing fees amounted to US$7,683,397 under the "Management service agreement"?

Given the many uncertainties surrounding Shanghai Fengwei and the assignment of its profits, would the board consider carrying out a special investigation on the circumstances and the commercial substance of the agreements?

(iii) Energy: Can the board help shareholders understand if the level of oversight and control over the day-to-day matters in the energy division?

(iv) Financial position: As disclosed in Note 21 (page 110 – Borrowings), the group and its subsidiaries have breached a non-financial and financial covenants for a bank loan and a trade financing facility respectively from financial institutions. In particular, the breach of the financial covenants for a trade financing facility resulted in the suspension of the financing facility although there has been no notice of default. In the previous year, the group had also breached a financial covenant for a bank loan from a financial institution. Would the board be carrying out a review to assess the group's financial position and evaluate if the group has the necessary financial resources to support the group's growth plans? How much working capital is required to run the businesses optimally?

<u>Company's Response:</u>

(i) As stated in the Chairman's and CEO's statement, the Company had planned to expand its network of clinics, specifically to extend to specialist services as a vertical integration of its primary clinic services. Prior to the Covid-19 pandemic, the Group was exploring specialist care in areas of different specialties to complement the primary care services by providing screening, diagnostic and treatment services to cater to the ageing population. The Group was in a growth mode through organic initiatives with discussions to onboard in particular, the young and aspiring specialists. However, with Covid-19 causing widespread uncertainty and in the current pandemic crisis, the Group's focus is to conserve cash and will review this plan to expand its network of clinics, whether primary care clinics or specialist clinics. The Company will update shareholders as and when it opens or acquires new clinics, whether primary or specialist care, medical or dental.

(ii) Please refer to the Company's announcement on 28 October 2020. The Board will be appointing an independent public accounting firm to conduct an independent review on the queries raised above, The Company will update the shareholders on the independent review and make further announcements as and when necessary.

(iii) The Board has overall oversight and control over all the divisions in the Group, including the energy division. Day to day operations and matters reside in the management of the energy division group. With the slowdown in the global economic environment, in particular the reduction in oil consumption and energy trading, the energy division management has further strengthened key risk management and operations oversight. The energy division will focus on embarking on better business development capabilities, ensure on-going revenue stability and reducing operational expenses.

(iv) The Board will continually review and assess the Group's financial position and evaluate whether the Group has the necessary financial resources to support the Group's growth plans.

3. SIAS Query:

On 15 October 2020, the company announced that there are material variances between the unaudited results (first announced by the company on 27 August 2020) and the audited financial statements for FY2020 after the finalisation of audit.

The announcement of material variances came 7 weeks after the company first announced its unaudited full year results.

The material variances were as large as US$7.3 million.

Reasons given for the material differences included:

- Adjustment of US$1,281,000 on present value of the call and put option due to the acquisition of medical clinics.
- Provision of expected credit loss of US$1,814,000 on the long-term receivables and US$3,956,000 on the trade and other receivables.
- Reclassification of US$270,300 interest on pre-sale profits of Shanghai Fengwei from finance costs to other operating expenses.
- Reclassification of transaction cost of US$261,804 incurred on lease financing from prepayment to lease amortization.

(i) How can shareholders get assurance from management that the financial statements are prepared in accordance with the relevant Act and financial reporting standards?

(ii) Has the audit committee (AC) evaluated if the internal financial reporting/finance team is sufficiently resourced with experienced and qualified staff to ensure the integrity of the financial statements? It would appear that the provision of expected credit loss on long-term receivables and on trade and other receivables was not carried out.

(iii) It is also noted that the group's finance director resigned on 15 October 2020 "to focus on personal matters and to pursue other interests". The FD was appointed approximately 2.5 years ago on 30 April 2018. How is the search for the new FD/CFO being carried out?

(iv) Can the AC update shareholders on the improvement made/to be made to the group's financial reporting systems and processes?

Company's Response:

(i) The audited financial statements were prepared in accordance with the relevant Act and financial reporting standards. Please refer to Note 2 of the audited financial statements. The Management and the Board are actively looking for an experienced CFO to come on board and to strengthen the finance team. In addition, the Group is looking to appoint new Auditors who will have the benefit of looking at the Group with afresh and to give fresh insights into the finance team. The Board will also request the new Auditors to assist the board by reviewing the half yearly statements before it is released.

(ii) The provision of the expected loss was taken into the audited financial statements after further evaluations in view of the challenges in the oil industry and the uncertainties caused by the Covid-19 pandemic. The Audit Committee periodically reviews internal control and reporting processes. One of the key focus of the Audit Committee is to review the finance team and to ensure that it is adequately staffed with experienced and qualified persons. In addition to appointing a new CFO, the Audit Committee has proposed that Management consider realigning or restructuring the management and finance team to ensure that the current and new business strategies and plan are adequately supported.

(iii) The Board is in the process of interviewing several candidates and recruiting a new CFO on board. The Company will update the shareholders as and when a new CFO is appointed,

(iv) The Audit Committee will work with the new Management, including the new CFO and the Auditors and internal auditors on improvements and changes, if any, to be made to the Group's financial reporting systems and processes.

BY ORDER OF THE BOARD

Ong Beng Hong
Company Secretary

29 October 2020