NEW SILKROUTES GROUP LIMITED

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

RESPONSE TO SGX QUERIES IN RELATION TO DISCLAIMER OF OPINION AND EMPHASIS OF MATTER

The Board of Directors (the "**Board**") of the Company (and together with its subsidiaries, the "**Group**") wishes to announce the following in response to the queries raised by the Singapore Exchange Securities Trading Limited (the "**SGX-ST**") in relation to the announcement released by the Company on 15 October 2020 entitled "Disclaimer of Opinion and Emphasis of Matter by Independent Auditor on Financial Statements" (the "**Announcement**").

All capitalized terms in this announcement shall have the same meanings as are accorded to them in the Announcement, unless otherwise defined.

1. SGX-ST's Query:

Please disclose the salient terms and the rationale of each of the Management Service Agreement (between Shanghai Fengwei and the Entity) and Management Agreement (between the Company, the Entity and Shanghai Fengwei). Please identify the Entity, shareholders and directors of the Entity.

Company's Response:

The salient terms of the Management Agreement are as follows:

- the Company shall assign the management rights and the profits of Shanghai Fengwei during the period from 1 January 2020 to 31 December 2021 (the "**Relevant Period**") to the Entity. The operations and finances of Shanghai Fengwei would continue to be controlled by the Company's Executive Director, Mr Shen Yuyun, and his management team;

- in consideration for the assignment, the Entity shall pay the Company an upfront consideration of US$2,828,400 (S$4,000,000) (the "**Consideration**"), being the guaranteed profit of Shanghai Fengwei for the Relevant Period. The Consideration is recorded in the financial statements of the Group under other payables;

- all post-tax profits or losses during the Relevant Period, whether in excess of or less than the Consideration, shall be attributable to or borne by the Entity.

The rationale for entering into the Management Agreement was a commercial and business decision taking into account the following:

- the arrangement under the Management Agreement would ensure that Shanghai Fengwei could make a profit despite the grave uncertainties when COVID-19 first appeared. These uncertainties included the Chinese government controlling the factories and mandating that they produce the material for the country at a government-controlled price; the uncertain length of time that COVID-19 would last (if the disease disappeared by mid-year, which was what happened in SARS 2003, then the demand for the material would markedly reduce); and whether the Group's own staff may be affected by COVID-19, which could result in the shutdown of the factory;

- the Management Agreement would enable the Company to receive the amount of the Consideration (being the expected profit of Shanghai Fengwei for the Relevant Period) regardless of whether Shanghai Fengwei actually made a loss or made a lower profit than the value of the Consideration during the Relevant Period. The Consideration was approximately a 42% increase over the profits of Shanghai Fengwei in the financial year ended 31 December 2019;

- the manufacturing sector in the People's Republic of China ("**PRC**") is competitive. Factories producing similar products could be converted from existing factories or set up quickly. It would benefit the Company for Shanghai Fengwei to collaborate with external parties, such as the Entity, to market Shanghai Fengwei's non-woven material to downstream factories and to explore vertical integration with downstream factories to manufacture the end-products (namely, PPE) for direct sale to consumers. Shanghai Fengwei will be able to expand its customer lists and work with new customers introduced by the Entity; and

- Haitong International Products (Singapore) Pte. Ltd. ("**Haitong**") had informed the Company that they would not be converting their loan into shares of the Company pursuant to the convertible loan agreement announced on 30 May 2018 (the "**Convertible Loan Agreement**"). Entering into the Management Agreement would enable the Company to receive upfront cash for its near-term working capital needs in view of the impending global volatile economic conditions brought on by the COVID-19 pandemic. The Company used the cash received to partially repay the loan then due and owing to Haitong. Without the cash received, the Company may have had difficulties repaying Haitong in full. If the Company was unable to repay the loan, this would have resulted in a payment default. Such a payment default may have resulted in cross defaults in the other facilities which the Group has and banks and financial institutions may have recalled their facilities, which would not be in the interest of the Company and its shareholders. By entering into the Management Agreement and receiving upfront cash, the Company was able to repay the Haitong Loan in full and averted any defaults in its credit facilities. The Board is of the view that the Management Agreement was a commercial decision entered into in good faith, was beneficial to the Company taking into account all the circumstances at that time and without benefit of hindsight. The Board is of the view that the Management Agreement was in the interest of the Company and the shareholders of the Company at the time the Management Agreement was entered into.

  Other than the Convertible Loan Agreement, the Company, its Directors and substantial shareholders has no existing or past connection (including business relationships) with Haitong, its Directors and substantial shareholders.

The salient terms of the Management Service Agreement are as follows:

- the Entity shall provide management services, including human resource management, corporate image planning, production process management and marketing development, to Shanghai Fengwei during the period from 1 April 2020 to 31 December 2020 (the "**Term**"). The operations and finances of Shanghai Fengwei would continue to be controlled by the Company's Executive Director, Mr Shen Yuyun, and his management team;

- in consideration for the provision of services, Shanghai Fengwei shall pay a monthly management service fee, using the monthly average profit-before-tax (excluding non-operating income) of Shanghai Fengwei during January 2020 to March 2020 (the "**Base Profit**") as a benchmark, to the Entity. In the event that the net profit-after-tax (before deduction of management service fees) of Shanghai Fengwei during a particular month exceeds the Base Profit, Shanghai Fengwei shall pay the amount of the excess to the Entity as management service fee for that month. In the event that the net profit-after-tax (before deduction of management service fees) of Shanghai Fengwei during a particular month is lower than the Base Profit, no management service fee is payable and the Entity shall pay an amount equivalent to the shortfall to Shanghai Fengwei for that month.

  For the avoidance of doubt, the Base Profit is not the Consideration. The Base Profit is a benchmark used to calculate the management service fee. As mentioned above, the Consideration is US$2,828,400 and is paid by the Entity to the Company as an upfront payment. The Base Profit is RMB1,121,449.30, which is the monthly average profit-before-tax (excluding non-operating income) of Shanghai Fengwei during January 2020

to March 2020. Please refer to paragraph 2 below for calculations on how the Base Profit is derived; and

- the parties may renew the Management Service Agreement upon the expiry of the Term.

The rationale of the Management Service Agreement is as follows:

- the management of Shanghai Fengwei was in charge of the implementation of the Management Agreement. The Management Service Agreement was entered into by Shanghai Fengwei, based on consultation with the local tax authorities, to pay to the Entity any profit-after-tax (before deduction of management service fees) above the Consideration, owed to the Entity under the Management Agreement, as management service fees. As such, the Management Service Agreement was an implementation of the Management Agreement;

- the manufacturing sector in the PRC was competitive. It would benefit the Company for Shanghai Fengwei to collaborate with external parties, such as the Entity, to market Shanghai Fengwei's non-woven material to downstream factories and to explore vertical integration with downstream factories to manufacture the end-products (namely, PPE) for direct sale to consumers.

The Entity is Shanghai Minlin New Textile Materials Sales Centre, a sole proprietorship established in the PRC. The sole proprietor of the Entity is Ms Tang Zhimin, who is holding on trust for Mr Lin Jie. The ultimate beneficial owner of the Entity is Mr Lin Jie. Sole proprietorships do not have directors. Mr Lin Jie is an acquaintance of Mr Shen Yuyun, the Executive Director and a substantial shareholder of the Company and was introduced to the Company by Mr Shen Yuyun. Save as disclosed, none of the Entity, its nominee and beneficial shareholder, its director has any connection with the Company, its Directors and substantial shareholders.

With the Management Agreement and the Management Service Agreement, the revenue of Shanghai Fengwei was RMB144,294,731 in the fourth quarter ended 30 June 2020 ("**4Q2020**") as compared to RMB31,428,529 in the fourth quarter ended 30 June 2019 ("**4Q2019**"). Based on the average monthly sales before the Management Agreement and the Management Service Agreement, revenue increased by approximately RMB100 million, largely attributable to new orders introduced by the Entity under the Management Agreement and the Management Service Agreement. Without the Management Agreement and the Management Service Agreement, revenue for 4Q2020 would have decreased significantly as there was limited marketing and orders downstream. Whilst Shanghai Fengwei has the capacity to increase production output, it lacked the capabilities to secure sales contracts downstream to increase revenue targets.

2. <u>SGX-ST's Query:</u>

It is disclosed in the Announcement that "In accordance with the terms of the Management Service Agreement, during the service period, Shanghai Fengwei's profit after deduction of the management service fees should not be lower than the Base Profit. The Base Profit was determined based on the average monthly profit-before-tax (excluding non-operating income) of Shanghai Fengwei during January 2020 to March 2020. If Shanghai Fengwei's actual profit is less than the Base Profit, the Entity will make up the shortfall to Shanghai Fengwei."

Please disclose (i) the monthly service fee to be paid under the Management Service Agreement and the factors taken into account in arriving at it; (ii) the monthly profit of Shanghai Fengwei from 1 April 2020 to 30 June 2020 and the total profits for this period and (iii) the amount of Base Profit, including its computation.

Please confirm if Shanghai Fengwei's profits for each month from April 2020 to September 2020 meets the Base Profit; whether the Entity has made up the shortfall to Shanghai Fengwei where the Base Profit is not met; what is the amount of the shortfall made up by the Entity and whether this amount has been collected.

Company's Response:

The monthly management service fee to be paid under the Management Service Agreement is not fixed. It is calculated using the Base Profit as the benchmark. In the event that the net profit-after-tax (before deduction of the management service fee) of Shanghai Fengwei during a particular month exceeds the Base Profit, Shanghai Fengwei shall pay the amount of the excess to the Entity as management service fee for that month. In the event that the net profit-after-tax (before deduction of the management service fee) of Shanghai Fengwei during a particular month is lower than the Base Profit, no management service fee is payable and the Entity shall pay an amount equivalent to the shortfall to Shanghai Fengwei for that month. On top of this, the Company will ensure that the monthly profit-after-tax of Shanghai Fengwei after the deduction of the management service fee does not fall below the Base Profit. Therefore, the actual amount of the monthly management service fee eventually and actually paid out may be lower than the management service fee as calculated in accordance with the following formula:

Monthly management service fee	=	Profit-after-tax (before deduction of management service fee)	–	Base Profit

The monthly management service fee may be lower when the profit-after-tax (before deduction of management service fee) falls below the base profit. Following which, the Entity will have to top up the difference to meet the Base Profit.

The monthly profit-after-tax (before deduction of management service fees), the monthly management service fees and the monthly profit-after-tax (after deduction of management service fees) of Shanghai Fengwei from April 2020 to June 2020 are as follows:

	Profit-after-tax (before deduction of management service fees		**Management service fees[(1)] (comprising marketing and consultancy fees referred to in paragraph 5 below)**		**Profit-after-tax (after deduction of management service fees)**	
	RMB	**US$[(2)]**	**RMB**	**US$[(2)]**	**RMB**	**US$[(3)]**
January 2020	(610,256)	(87,471)	-	-	(610,256)	(88,798)
February 2020	2,424,952	349,522	-	-	2,424,952	352,851
March 2020	2,222,291	317,040	-	-	2,222,291	323,362
April 2020	21,796,851	3,075,133	20,000,000	2,821,652	1,796,851	261,457
May 2020	17,293,521	2,450,375	15,500,000	2,196,182	1,793,521	260,972
June 2020	16,015,857	2,239,917	9,994,340	1,397,855	6,021,517[(4)]	876,181
	59,143,216	**8,344,516**	**45,494,340**	**6,415,689**	**13,648,876**	**1,986,025**

Notes:

(1) This refers to the management service fee as calculated in accordance with the formula below, not the actual management fee eventually and actually paid out or to be paid out. The management service fee is calculated on a monthly basis but the payment of the management service fee paid out may not be the same, as the Entity leaves a floating amount for company liquidity to make up for any shortfall the following months, if Shanghai Fengwei fails to meet the Base Profit. The management service fees are recorded as expenses in the Company's books.

(2) Based on the exchange rate of approximately 6.9767 for the month of January 2020, exchange rate of approximately 6.9379 for the month of February 2020, exchange rate of approximately 7.0095 for the month of March 2020, exchange rate of approximately 7.0881 for the month of April 2020, the exchange rate of approximately 7.0575 for the month of May 2020 and the exchange rate of approximately 7.1502 for the month of June 2020.

(3) Based on the average exchange rate of approximately 6.8725 from January to June 2020. The profit-after tax (after deduction of management service fees) in US$ doesn't equal to profit-after-tax (before deduction of management service fees) less management service fees due to different exchange rate being used.

(4) The profit-after-tax (after deduction of management service fees) of Shanghai Fengwei for June 2020 would be RMB1,368,431 (equivalent to US$191,383 based on the exchange rate of 7.1502 for the month of June 2020) if not for the audit adjustment of RMB4,653,086 on the over-accrued staff cost of Shanghai Fengwei.

The amount used for computing the management fee for June 2020 was RMB1,368,431 before the audit adjustment.

As stated in paragraph 1 above, the Base Profit is the monthly average profit-before-tax (excluding non-operating income) of Shanghai Fengwei during January 2020 to March 2020. The monthly profit-before-tax (excluding non-operating income) of Shanghai Fengwei from January 2020 to March 2020 is as follows:

	RMB	**Exchange rate**	**US$**
January 2020	(809,600.45)	6.9747	(116,076.74)
February 2020	1,350,193.65	6.9747	193,584.48
March 2020	2,823,754.70	6.9747	404,856.80
	3,364,347.90		**482,364.53**

The Base Profit is thus derived as follows:

RMB3,364,347.90 ÷ 3 = **RMB1,121,449.30** (equivalent to US$160,788 based on the average exchange rate of 6.9747 from January to March 2020).

The monthly net profit of Shanghai Fengwei after the management fee for each month from April 2020 to September 2020 exceeds the Base Profit.

3. SGX-ST's Query:

It is disclosed in the Announcement that "Pursuant to the Management Agreement, the Entity will manage and expand the business of Shanghai Fengwei and the Group would receive upfront a Consideration of US$2,828,400 (S$4,000,000) for the period from 1 January 2020 to 31 December 2021."

Please elaborate on the actions taken by the Entity to manage and expand the business of Shanghai Fengwei.

Company's Response:

The list of customers or order book has increased as a result of Shanghai Minlin's services. Shanghai Minlin also helped to procure additional manpower and raw materials in order to fulfill the increased volume of products in June 2020.

4. SGX-ST's Query:

It is disclosed in the Announcement that "As at 30 June 2020, the Group and Company recorded an amount of US$4,096,108 as part of other payables (Note 19) in the statement of financial position which included the Consideration received of US$2,828,400 and the fees payable of US$1,267,708 to the Entity in relation to the assignment of the profits of Shanghai Fengwei from 1 January 2020 to 30 June 2020."

Please explain why the consideration received of US$2,828,400, which relates to upfront Consideration, was recorded under other payables of the Group.

Please identify the shareholder from whom the Consideration was received and what is the role of this shareholder with regards to the Consideration.

Please disclose the post-tax profits or losses during the relevant period for Shanghai Fengwei and whether these are attributable to the Entity and details of the relevant period.

Please explain the rationale for the consultancy and marketing fees amounting to US$1,267,708 payable to the Entity and how these fees had been calculated.

Company's Response:

The Consideration (i.e. US$2,828,400, representing the guaranteed profit of Shanghai Fengwei for the period from 1 January 2020 to 31 December 2021) is in the nature of an advanced payment received from the Entity. In accounting, advanced receipts are recorded under other payables of the Group and the Consideration, being an advanced receipt from the Entity, is recorded as an advanced payment payable to the Entity in the balance sheet of the Group. The US$1,267,708 payable to the Entity was derived based on the profit-after-tax (after deduction of management service fees) of Shanghai Fengwei less the proportionate amount of the Consideration for the period from 1 January 2020 to 30 June 2020 of US$718,317. Other payables are non-trade payables. Please refer to Note 19 of the financial statements of the Company in the FY2020 Annual Report for further details of the other payables.

The Consideration was received from WTL Capital Holdings Pte. Ltd., a shareholder of the Company. As disclosed in the Company's announcement dated 13 August 2018 and the Circular dated 16 October 2018, the shareholders of WTL Capital Holdings Pte. Ltd. are Mr Wang Xing, Ms Tang Meifang and Ms Lu Yuqin. Mr Wang Xing and Ms Tang Meifang are directors of Shanghai Fengwei. Ms Lu Yuqin is a senior executive of Shanghai Fengwei. Mr Wang Xing, Ms Tang Meifang and Ms Lu Yuqin are not associates of each other.

WTL Capital Holdings Pte. Ltd. was acting as an intermediary or "agent" of the Entity in relation to the payment of the Consideration to the Company. The Entity had appointed WTL Capital Holdings Pte. Ltd. as agent/intermediary for the payment of the Consideration due to capital controls in China. The Entity entrusted WTL Capital Holdings Pte. Ltd. to make payment on the Entity's behalf as the Entity was familiar with the personnel in WTL Capital Holdings Pte. Ltd. (the shareholders and directors of WTL Capital Holdings Pte. Ltd. were also the directors and/or senior executive of Shanghai Fengwei). WTL Capital Holdings Pte. Ltd. did not receive any fee or commission in connection with the transfer of the Consideration on behalf of the Entity to the Company. WTL Capital Holdings Pte. Ltd. merely agreed to help make payment of the Consideration on behalf of the Entity to the Company out of commercial goodwill and in good faith. The Entity has since returned the amount of the Consideration.

During the period from 1 January 2020 to 30 June 2020, the profit-after-tax (after deduction of management service fees) of Shanghai Fengwei was US$1,986,025 (RMB13,648,876), of which US$1,267,708 (RMB8,648,876) was attributable to the Entity. These profits were not paid to the Entity during FY2020 and still remains payable.

The consultancy and marketing fees which are management service fees payable under the Management Agreement amounting to US$1,267,708 payable to the Entity was derived based on the profit-after-tax (after deduction of management service fees) of Shanghai Fengwei of US$1,986,025 less the proportionate value of the Consideration for the period from 1 January 2020 to 30 June 2020 of US$718,317. The value of the Consideration for the period from 1 January 2020 to 30 June 2020 of US$718,317 was derived by using S$1,000,000 (being the proportionate value of the Consideration for 6 months; as mentioned in paragraph 1 above, the Consideration for 2 years is S$4,000,000) translated with the 6 months exchange rate of 0.7183.

5. SGX-ST's Query:

Please confirm as to whether each of the Management Service Agreement (between Shanghai Fengwei and the Entity) and Management Agreement (between the Company, the Entity and Shanghai Fengwei) were subject to the Board's prior approval and whether such approval had been obtained.

Company's Response:

The Management Agreement was approved by the Board. No separate approval was obtained for the Management Service Agreement, as the Management Service Agreement was an implementation of the Management Agreement. The Management Service Agreement was entered into by Shanghai Fengwei, based on consultation with local tax

authorities, to pay to the Entity any profit-after-tax (before deduction of management service fees) above the Consideration, owed to the Entity under the Management Agreement, as management service fees. As such, the Management Service Agreement was an implementation of the Management Agreement.

6. SGX-ST's Query:

We note that Deloitte & Touche LLP, the external auditors, were unable to obtain sufficient appropriate audit evidence on (a) the business rationale, commercial substance and structuring of arrangements pursuant to the Management Agreement, and whether these are in the normal course of business, including the arrangement for the receipt of the Consideration; (b) in relation to the Management Service Agreement, the business rationale and commercial substance regarding the management service fees charged by the Entity during the period from April to June 2020, and whether there are any potential tax exposures and impact of any non-compliance with regulatory and/or legal requirements arising from the above transactions.

Please advise how the Board of directors will be addressing these issues as raised by the external auditors.

Company's Response:

Please refer to paragraph 1 above for the business rationale, the commercial substance and the structuring of the arrangements pursuant to the Management Agreement. The arrangement under the Management Agreement was a business and commercial decision, taking into account factors set out in paragraph 1 above, in particular, the need to ease the Company's cashflow. The Management Agreement has been approved by the then-existing Board. Please refer to paragraph 4 above for more information on the arrangement for the receipt of the Consideration. There are no other similar arrangements entered into by the Group.

Please refer to paragraph 1 above for the business rationale and commercial substance of the Management Service Agreement. In relation to whether there are any potential tax exposures and impact of any non-compliance with regulatory and/or legal requirements arising from the Management Service Agreement, the Company will conduct an independent review of the matter. To review further and address the concerns raised by the Auditors on the commercial substance, the Board will be appointing an independent public accounting firm to conduct an independent review into the Management Agreement and the Management Service Agreement.

7. SGX-ST's Query:

In relation to the second basis for Disclaimer of Audit Opinion, that is, "Financial asset at fair value through other comprehensive income ("**FVTOCI**")", Deloitte & Touche LLP, was unable to obtain sufficient appropriate audit evidence on the fair value of 4.534% equity interest in Thai General Nice Coal and Coke Co., Ltd ("**Thai GNCC**") at FVTOCI of US$17,191,806 and fair value loss of US$2,544,699 recorded in other comprehensive income for the year ended 30 June 2020. It was also stated in the Audit Opinion that as at the end of the financial year, Thai GNCC has yet to commence its operations and management has no visibility to the future plans and developments and access to its records.

As disclosed in Note 17 to the Financial Statements, on 26 June 2018, the Group entered into a debt repayment agreement with a company owned by a former director of the company, pursuant to which the refundable deposits and accrued interest of US$3,669,996 and prepayments of US$4,900,000, amounting to US$8,569,996 in total, were repaid in full by way of the transfer of 857,000 ordinary shares in the capital of Thai GNCC at the price of approximately US$10 per share from Tianjin GNCC to the Group's wholly-owned subsidiary, International Energy Group Pte. Ltd. ("IEG"). The share transfer agreement was made between Tianjin GNCC and IEG on 30 June 2018. Consequently, the total investment in Thai GNCC became 4.534%, and the cost of the investment in Thai GNCC became US$22,659,996 as at 30 June 2018 before recognising any fair value changes.

(a) Please provide details of (i) the debt repayment agreement, (ii) nature of refundable deposits and prepayments, (ii) identity of the former director, and (iii) factors considered by the Board in entering into the debt repayment agreement.

(b) Please advise as to whether debt repayment agreement was subject to prior Board approval and whether such approval had been obtained.

(c) Please advise the Board's opinion on the reasonableness of the FVTOCI of US$17,191,806 and the bases for such an opinion. Please advise how the Board will be addressing these issues as raised by the external auditors.

Company's Response:

(a) The debt repayment agreement was entered into on 26 June 2018 between the Company and Tianjin General Nice Coke & Chemicals Co., Ltd. ("**Tianjin GNCC**"). Pursuant to the debt repayment agreement, Tianjin GNCC shall, as repayment of the US$8,569,996 owing by Tianjin GNCC to the Company, transfer 857,000 shares it owns in Thai General Nice Coke & Chemicals Co., Ltd. to the Company's wholly-owned subsidiary, International Energy Group Pte. Ltd. ("**IEG**").

The amount of US$8,569,996 owed by Tianjin GNCC to the Company comprised (i) US$3,669,996 of refundable deposits and accrued interest and (ii) US$4,900,000 of prepayments.

The refundable deposits and accrued interest amounting to US$3,669,996 arose from the following circumstances:

(i) pursuant to a sale and purchase agreement dated 13 May 2011 (as amended by various addenda and supplemental agreements dated 27 June 2012, 18 June 2013, 22 January 2014, 16 December 2014, 25 August 2015, 22 December 2015, 21 June 2016, and 17 February 2017) entered into between the Company and Tianjin GNCC, the Company had agreed to purchase, and Tianjin GNCC had agreed to sell, 1,410,000 shares representing 2.82% of the total issued and paid-up share capital of Thai GNCC for a purchase consideration of US$14,090,000 (the "**SPA**");

(ii) pursuant to previous versions of the SPA, the Company had paid a deposit and additional deposit amounting in aggregate to US$13,757,384 (the "**Total Deposit**") to Tianjin GNCC, and Tianjin GNCC had incurred interest amounting in aggregate to US$4,002,612 (the "**Accrued Interest**") to the Company;

(iii) pursuant to the latest version of the SPA (as introduced by the supplemental agreement dated 17 February 2017), the Total Deposit and Accrued Interest shall be applied towards total satisfaction of the purchase consideration upon completion of the SPA. The excess of US$3,669,996 shall be refunded by Tianjin GNCC to the Company.

The prepayments amounting to US$4,900,000 arose from the following:

(i) Top Post Enterprises Limited ("**Top Post**") and Baling (China) Investment Limited ("**Baling**"), previous subsidiaries of the Company, had in FY2016 remitted US$500,000 and US$4,400,000 respectively to one Assure Win International Holdings Limited ("**Assure Win**") as prepayment for proposed delivery of certain commodities. As the Company was unable to contact Assure Win on the delivery of the commodities, and Mr Lau Yu and Mr Cai Suixin were the directors of Top Post and Baling at the time the remittances were made, Tianjin GNCC (which was owned by Mr Cai Suixin) had agreed to take over the commodities contract and repay the prepayment of US$4,900,000 paid to Assure Win.

The former director of the Company who owned Tianjin GNCC was Mr Cai Suixin. Mr Cai Suixin is currently still a substantial shareholder of the Company through his deemed

interests (please refer to the statistics of shareholding in the Annual Report 2020 for more information in this regard).

The Company considered the following factors in entering into the debt repayment agreement: After Mr Frank Yu and Mr Lau Yu retired as Directors of the Company in 2016, the Group did not have the expertise to deal in the commodities. In addition, the Company made numerous attempts to contact Assure Win on the delivery of the commodities or the refund of the prepayments. Litigation against Assure Win to recover the prepayment would be costly and may result only in a paper judgment if Assure Win has insufficient assets to repay any judgment.

Shareholders may also wish to refer to past annual reports of the Company, in particular the annual report for FY2017 and FY2018, for previous discussions on the debt repayment agreement and the refundable deposits and prepayments in the audited financial statements.

(b) The debt repayment agreement was approved by the Board.

(c) The Company appointed Jones Lang LaSalle Corporate Appraisal and Advisory Limited (JLL) to conduct an independent valuation. In their valuation report dated 1 October 2020, the fair value of the Group's 4.534% equity interest in Thai GNCC was US$17,400,000 million as at 30 June 2020, developed through the application of an income approach technique known as the discounted cash flow method. JLL further mentioned in its opinion that the cost approach is inappropriate for valuing Thai GNCC, as it does not directly incorporate information about the economic benefits contributed by Thai GNCC. The market approach is inappropriate as it requires market transactions comparable to Thai GNCC as an indication of value. However, JLL has not identified any current market transactions which are comparable to Thai GNCC. JLL has therefore relied on the income approach in determining their opinion of value. The Board's opinion on the FVTOCI of US$17,191,806 is reasonable and appropriate as it is lower than the valuation of US$17,400,000 by JLL under the income approach which is the only approach used in their valuation report.

As mentioned in the past quarterly results announcements, the Board has informed that in an effort to resolve the above outstanding audit issue, the Company had contacted and will continue to contact and request for more visibility on the future plans and developments and access to the records from the management of Thai GNCC. The current COVID-19 pandemic further hinders progress with travelling restrictions. The Board will ensure that the new Management continues to follow up on this matter and will update shareholders accordingly and when appropriate. The Board and the Management will also continue exploring with the incoming auditors on other methods of valuation that are acceptable to them.

The Board will be appointing an independent public accounting firm to conduct an independent review into the queries raised above. The Company will update the shareholders on the independent review and make further announcements as and when necessary.

BY ORDER OF THE BOARD

Ong Beng Hong
Company Secretary

28 October 2020