

NEW SILKROUTES GROUP LIMITED

(Incorporated in the Republic of Singapore)
(Company Registration No. 199400571K)
(the “Company”)

RESPONSE TO SGX QUERIES ON COMPANY’S FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2020

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 Company’s financial statements for the period ended 31 December 2020 (the “Financial Statements”) released via SGXNET on 10 February 2021.

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

SGX-ST’s Query:

Please disclose a breakdown of other operating expenses amounting to US\$4,920,000 and US\$1,319,000 for the half year ended 31/12/20 and 31/12/19 respectively.

Company’s Response:

	31 December 2020	31 December 2019
	US\$’000	US\$’000
Foreign exchange loss	195	45
Advertising expenses	1	17
Selling expenses ^(Note 1)	3,161	375
Delivery expenses	-	1
Establishment expenses	224	54
Legal, professional fees and other charges	714	450
Administration expenses	240	271
Impairment losses on trade and other receivables	305	25
Bank charges	81	81
Total other operating expenses	4,920	1,319

Note 1: Consist of US\$2.86m management fees to Shanghai Minlin.

SGX-ST’s Query:

Please disclose:

- (i) the nature of the long-term receivables; and*
- (ii) the Board’s assessment of the recoverability of the long-term receivables.*

Company’s Response:

	31 December 2020
	US\$’000
Long term prepaid expenses	322
Retention sum ^(Note 1)	1,625
Total	1,947

Note 1:

Being the retention sum arising from the financing arrangement entered by the subsidiary, TXZ Tankers Pte. Ltd. An amount of US\$1,625,000 has been retained by the counterparty till maturity of the financing.

SGX-ST's Query:

It is disclosed on page 1 of the unaudited financial statements that an amount of US\$305,000 was recognised as impairment losses on trade and other receivables for the period ended 31/12/20. In this regard, please disclose the following information:

- (i) *Please disclose a breakdown of the Group's trade and other receivables amounting to US\$12,134,000 and US\$16,993,000 as at 31/12/20 and 30/06/20 respectively. Please also disclose the amount of trade and other receivables attributable to the energy segment;*

Company's Response:

	31 December 2020	30 June 2020
	US\$'000	US\$'000
Trade receivables from:		
Third parties	11,614	17,075
Less: Loss allowance		
Third parties	(4,167)	(4,167)
	7,447	12,908
Other receivables from:		
Former related party	2,621	2,621
Related parties	21	20
Deposits	1,101	409
Consideration receivables	2,311	2,311
Margin and hedge accounts	-	278
Insurance recoverable	823	823
Other receivables	1,983	1,796
	8,860	8,258
Less: Loss allowance	(4,173)	(4,173)
	4,687	4,085
Total trade and other receivables	12,134	16,993

Trade and other receivables attributable to the energy segment amounting to US\$3.53m.

The impairment loss of US\$305,000 is due to the impairment recognised on the receivables from the Group's PRC subsidiary, Shanghai Fengwei ("SHFW"), due to the quality problem of the non-woven product delivered on April 2020 which was written off.

- (ii) *the underlying transactions of the other receivables;*

Company's Response:

- a.) Other receivables from former related party

The former related party is a company wholly-owned by a former director of the Company. Other receivables from former related party amounting to US\$2.62 million relates to advances and payments on behalf of the former related party in respect of oil trades and purchases of fuel oil, and is unsecured, interest-free and repayable on demand. The Group

has made a legal claim against the former related party to seek payment of the outstanding amounts, as well as interest and legal costs. As at 31 December 2020, an expected credit loss allowance of US\$2.62 million was recorded.

b.) Consideration receivables

Consideration receivables comprise the outstanding amounts of approximately US\$3.5 million arising from the disposal of subsidiaries, in 2017 and 2016. On 13 March 2018, the Group agreed with the buyer on the full and final settlement of all claims, in which US\$3.2 million would be paid of which US\$0.9 million has been recovered. As at 31 December 2020, an expected credit loss of approximately US\$1.35 million was recorded. Management has assessed that the remaining amount to be recoverable through either payments or offset against collaboration projects.

Both underlying transactions were disclosed in our AR 2020 which was uploaded in the SGXNet on 15 October 2020.

(iii) *the Company's plans to recover the trade and other receivables;*

Company's Response:

Subsequent to the financial period ended 31/12/20, out of the Group's total trade and other receivables amounting to US\$12.13 million, of which approximately US\$6.32 million pertains to SHFW, approximately US\$3.7 million of the trade and other receivables has been recovered.

(iv) *whether they are major customer(s) and whether the Company continues to transact with these customer(s) and if so, what are the commercial reasons in doing so;*

Company's Response:

As SHFW is a non-woven upstream supplier to its customers (down-streamers) in the fabric industry, there are no major customers. Based on a handful of material trade receivables balances, the following table shows the movement of the trade receivables of SHFW's customers subsequent to the financial period ended 31/12/20:

Name of Customer	Balance (US\$'000)	Sales (US\$'000)	Receipts (US\$'000)	Balance (US\$'000)
浙江柔石家居用品股份有限公司	392	125	(167)	350
上海艾孚生化工有限公司	245	284	(213)	315
杭州奥风科技有限公司	384	434	(286)	532
常州合力迈德医疗用品有限公司	594	-	(121)	473
江阴开源非织造布制品有限公司	97	134	(218)	13
新乐华宝医疗用品有限公司	598	266	(179)	685

For illustration purpose, an exchange rate of USD/RMB of 6.5844 is used

(v) *how long are the debts outstanding and when were the sales reported;*

Company's Response:

Referring to (xi), the trade receivables are based on the credit terms provided to the customers.

(vi) *what were the actions taken to recover the trade and other receivables;*

Company's Response:

Each individual business unit will handle the recovery of the trade and other receivables.

(vii) *the reasons for the impairment on trade and other receivables, including the reasons for delays or non-payment, where applicable;*

Company's Response:

The impairment loss of US\$305,000 is due to the impairment recognised on the receivables from SHFW due to the quality problem of the non-woven product delivered on April 2020 which was written off. It was an exceptional case and there were no further cases noted for the six months financial period ended 31 December 2020

(viii) *the Board's opinion on the reasonableness of the methodologies used to determine the value of the impairment of the trade and other receivables;*

Company's Response:

For the methodologies of impairment assessment, please refer to page 96 to page 99 of the FY2020 annual report.

(ix) *the Board's assessment of the recoverability of the remaining trade and other receivables;*

Company's Response:

As mentioned in (iii), the Board is in the opinion that the trade receivables will be recoverable as they are in the course of the ordinary business.

(x) *the percentage of revenue earned in this financial year that was deemed uncollectible (i.e. trade receivables amount written off or provided for);*

Company's Response:

The percentage of revenue earned in this financial year that was deemed uncollectible was 0.69%.

(xi) *the aging analysis and assessment of the recoverability of the remaining trade and other receivables; and*

Company's Response:

	<u>Group</u>					
	Trade receivables - days past due					
	Not past due	<30 days	31 - 90 days	> 90 days	Individually assessed lifetime ECL	Total
<u>31 December 2020</u>	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Estimated total gross carrying amount	4,853	505	306	92	5,858	11,614
Lifetime ECL				(48)		(48)
Total	4,853	505	306	44	5,858	11,566

(xii) the percentage of trade receivables attributed to the major customer (or five largest customers) of the Company.

Company's Response:

The percentage of trade receivables attributed to the five largest customers of the Company is at 53%.

SGX-ST's Query:

It is disclosed in the unaudited financial statements that, "Prepayments increased to US\$1.39m as at 31 December 2020 when compared to US\$0.60m as at 30 June 2020 mainly due to advanced payment for vessel related expenses and purchase of non-woven material." Please explain why advanced payment for vessel related expenses was made when the Company has commenced creditor voluntary liquidation for IEG.

Company's Response:

The advanced payment for vessel related expenses was dry dock expenses paid in July 2020 before the Group commence the creditors' voluntary liquidation of IEG.

SGX-ST's Query:

Please disclose a breakdown of the Group's trade and other payables amounting to US\$11,371,000 and US\$26,025,000 as at 31/12/20 and 30/06/20 respectively. Please also disclose the amount of trade and other receivables attributable to the energy segment.

Company's Response:

	31 December 2020	30 June 2020
	US\$'000	US\$'000
Trade payables from:		
Third parties	3,609	9,557
Other payables from:		
Former related party	35	35
Related party	6	-
Accrued purchases	-	3,670
Accrued operating expenses	775	765
Accrued personnel expenses	138	176
Deposit received	-	354
Consideration payable	1,496	1,414
Consultancy and marketing fees payable	1,044	4,485
Upfront guaranteed profit received	2,991	2,828
Other payables	1,277	2,741
	7,762	16,468
Total trade and other payables	11,371	26,025

Trade and other payables attributable to the energy segment amounting to US\$3.00m.

SGX-ST's Query:

It is disclosed that "Non-current borrowings increased to US\$16.65m as at 31 December 2020 when compared to US\$14.91m as at 30 June 2020 mainly due to temporary bridging loan secured by the Group." Please provide further information on the temporary bridging loan, including the amount and nature of loan.

Company's Response:

The Group obtained a total S\$5m temporary bridging loan for the working capital of healthcare segment.

SGX-ST's Query:

Please explain why interest income amounted to only US\$93,000 during the financial period ended 31/12/2020 when the Company has significant cash and bank balance amounting to US\$10,416,000.

Company's Response:

Most of the Group's bank balance is maintained in a non-interest-bearing current account.

SGX-ST's Query:

Given the Group's significant current liabilities of US\$23,295,000 and cash and bank balance of only \$10,416,000 and noting that the Company incurred losses of US\$1,328,000 for the half year ended 31/12/2020, please disclose the Board's assessment (i) whether the Company's current assets are adequate to meet the Company's short term liabilities of \$23,295,000, including its bases of assessment; and (ii) how the Company intends to fulfil its significant payment obligations in the next 12 months. Where the Company has worked out debt repayment plans to fulfil its debt obligations, please disclose if the Company is on track to fulfilling these obligations.

Company's Response:

As previously disclosed in our response to SGX Queries and SGX Additional Queries on Creditors' Voluntary Liquidation of International Energy Group Pte. Ltd. dated 20 January 2021 and 25 January 2021 respectively, the Board of Directors is in the opinion that the Company and the Group can continue as a going concern and have sufficient working capital and financial resources to meet their obligations as and when they fall due in the next 12 months on the same following bases and assumptions:

- (i) The Group had implemented several cost-cutting initiatives;
- (ii) The Group's healthcare operations generate sufficient operating cash flows to meet its working capital requirements. The health and healthcare subsidiaries of the Company contributed US\$25.56 million to the revenue of 1HY2021. The Group can continue to grow its healthcare operations based on the financials from its subsidiaries SHFW and Healthsciences International Pte. Ltd.
- (iii) The Group is in collaboration to develop a healthcare artificial intelligence (AI) platform and expect income generating stream from this once the reliability verification is complete.
- (iv) The Group is currently in discussions for external financing from strategic investors to the Company from the ongoing restructuring of the Company into a fully integrated healthcare business.

Further Clarification

We refer to The Business Times article dated 15 February 2021 available at: <https://www.businesstimes.com.sg/companies-markets/new-silkroutes-group-focused-on-transforming-into-a-healthtech-play> (the "Article").

The Board would like to highlight that the funds required to be raised to launch the AI platform in respect of the MOU with Huawei of \$5-8 million stated in the Article is only an estimated amount and that there is no firm up plan as to mode of funding. The funds required to launch the AI platform may be sourced from internally generated funds, collaboration partner(s) and/or bank loans.

Shareholders of the Company and potential investors should note that the trading in the Company's securities may be suspended in the event that the Company is unable to continue as a going concern. Shareholders of the Company and potential investors are advised to exercise caution when dealing in the shares of the Company and to refrain from taking any action in respect of their shares in the Company which may be prejudicial to their interests. Shareholders of the Company and potential investors are advised to read all further announcements by the Company carefully and to consult their stockbrokers, bank managers, solicitors, accountants or other professional advisers if they have any doubt about the actions they should take.

BY ORDER OF THE BOARD

Dr VicPearly Wong Hwei Pink
Executive Director and CEO

3 March 2021