

NEW SILKROUTES GROUP LIMITED

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

RESPONSE TO SGX QUERIES ON COMPANY’S ANNUAL REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2021

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 Annual Report for the year ended 30 June 2021 (“**Annual Report**”) released via SGXNET on 14 October 2021.

SGX-ST’s Query:

(i) *Please disclose:*

- (a) *the Board of Directors’ assessment of the Group’s ability to continue operating as a going concern and the bases for the said assessment, taking into consideration, amongst others, (i) the letter of demand in respect of principal of US\$6,800,000 and interest of US\$358,000 from the provisional liquidators of OCAP Management Pte. Ltd. (“**OCAP**”); (ii) the letter of demand from lolani Shipping Limited (“**lolani**”) in respect of US\$10,696,000; (iii) breach of a non-financial covenant for a loan from a financial institution amounting to US\$3,631,000; and (iv) corporate guarantees of US\$2,639,000 (2020: US\$12,911,000) to banks borrowings of US\$1,906,000 (2020: US\$16,484,000) drawn down by its subsidiaries;*

Company’s Response:

The Board of Directors is of the opinion that the Company and the Group can continue as a going concern on the following bases and assumptions:

- (a) The Group had implemented several cost-cutting initiatives;
- (b) The Company is alleged to be a corporate guarantor to a loan extended from OCAP Management Pte Ltd (“**OCAP**”) to International Energy Group Pte. Ltd. (“**IEG**”). In January 2021, the Company has received letters of demand in respect of US\$7,158,133.33 from the provisional liquidators of OCAP. The Company is currently in active discussions and negotiations with the provisional liquidators to reach an amicable conclusion;
- (c) IEG is alleged to be a corporate guarantor (“**NSG Guarantee**”) to a lease financing arrangement of the bare boat charter agreement (the “**BBC agreement**”) entered into by its subsidiary, TXZ Tankers Pte. Ltd.. The Company is alleged to be a corporate guarantor to the lease financing arrangement and the contingent liabilities therein. The Company had received a letter of demand dated 7 June 2021 from lolani Shipping Limited (“**lolani**”) for an alleged sum of US\$10,695,760 plus any interest which is alleged to continue to accrue in accordance with the terms of the NSG Guarantee. The Company is currently in active discussions and negotiations with the counterparty to reach an amicable conclusion;
- (d) The Board is monitoring closely the discussions and negotiations with OCAP and lolani. The Board is currently of the view that both parties are committed to reaching a mutually beneficial resolution with the Company. However, if this should change, the Board will make the necessary disclosures in a timely and orderly manner;
- (e) With respect to the breach of a non-financial covenant for a loan from a financial institution amounting to US\$3,631,000, the financial institution has informed the Group that it does not presently intend to enforce the securities or take any action presently

against the Group. The Group is currently making all relevant interest and principal payments to the financial institution;

- (f) With respect to the corporate guarantees of US\$2,639,000, there are no risks of cross defaults as existing bank loans contain covenants requiring the monies to be ringfenced around the specific healthcare entities;
- (g) 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\$42.039 million to the revenue of the financial year ended 30 June 2021 ("FY2021"). The Group can continue to grow its healthcare operations based on the financials from its operating subsidiaries;
- (h) The Group also looks to launching its AI driven genomics platform in the next quarter. In conjunction with our partners, Huawei and SenseTime, we have completed our proof of concept for our AI Genomics platform GEIA™ and look forward to converting this to a PaaS cloud computing model. GEIA™ is a complete and seamless, hybrid cloud-based workflow platform solution with AI-optimised analyses. The Group will continue to build relationships with leading tech players who can provide us with a full range of capabilities in data-driven diagnostics; and
- (i) 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.

SGX-ST's Query:

(b) the Board of Directors' opinion as to whether trading of the Company's shares should be suspended pursuant to Listing Rule 1303(3); and

Company's Response:

The Board of Directors does not think that a trading suspension is required as the Group is continuing its operations. The health and healthcare subsidiaries of the Company contributed US\$42.039 million to the revenue of FY2021. The health and healthcare segment of the Group continue their business and operations as usual. The Group is continuously looking to grow its healthcare business.

SGX-ST's Query:

(c) the Board of Directors' confirmation as to whether sufficient information has been disclosed to enable trading of the Company's shares to continue in an orderly manner; and the bases for its views.

Company's Response:

The Board of Directors confirms that sufficient information has been disclosed by the Company to enable trading to continue in an orderly manner, as all material information on the Group has been disclosed to shareholders and the Board takes a serious view of compliance with the disclosure obligations under the Listing Manual.

The Board expects the Management to provide all material information to the Board on an ongoing basis and in a timely manner. The Board makes its decisions on disclosures based on the information provided by Management, and where relevant, the Board will seek external advice and recommendations from external professionals including accountants and lawyers.

SGX-ST's Query:

(ii) We note that the Company does not currently have a Finance Director since Mr Kwok Chung Chieh Lincoln resigned on 9 May 2021.

Please disclose:

(a) the reason as to why the position is not fulfilled;

Company's Response:

The Company has employed a senior finance manager, who is still on probationary term, who is responsible for the accounting and financial reporting of the Group. As the position has not yet been confirmed by the Company, no announcement has been made on the position.

SGX-ST's Query:

(b) the Company's efforts and estimated timeline to fulfil this role; and

Company's Response:

The Audit and Risk Committee and the Board is currently and will continue to assess the performance of the senior finance manager. The probation period ends in December 2021 and if the position is confirmed, the Company will make the relevant appointment. The Company is also looking for candidate to fulfil the position of Finance Director or equivalent to this position.

SGX-ST's Query:

(c) who is currently overseeing the accounting and finance function after the departure of the Finance Director? What is the Audit Committee's assessment of the adequacy, skills and experience of the existing accounting and finance function and the bases of the assessment?

Company's Response:

The Company has employed a senior finance manager, who is still on probationary term, who is responsible for the accounting and financial reporting of the Group. The senior finance manager has over 12 years of working experience in audit and commercial as audit manager and finance manager. The Audit and Risk Committee has assessed the adequacy, skills and experience of the existing accounting and finance function. The accounting and finance function is continuously monitored and assessed by the Board and Audit and Risk Committee.

SGX-ST's Query:

(iii) With reference to the audited consolidated statement of cashflows on page 58 of the Company's Annual Report 2021, please provide an explanation for the following:

(a) material difference in the amount of the net cash used in operating activities of approximately US\$2,895,000, as compared to the unaudited financial results announcement of the Company of US\$3,895,000; and

Company's Response:

The difference of US\$1,000,000 is due to the reclassification of certain operating activities to net cash outflow on loss of control over subsidiaries under investing activities in relation to the Group has lost control over the cash and cash equivalents of IEG upon the appointment of the liquidator. The details as follows:

	As per unaudited financial statements US\$'000	As per audited financial statements US\$'000	Variance US\$'000
Group			
Cash flows from operating activities			
Interest expense	1,920	1,921	(1)
Unrealised foreign exchange differences	108	38	70
Changes in trade and other receivables	5,386	6,119	(733)
Changes in trade and other payables	(16,685)	(16,543)	(142)
Income tax paid	(855)	(661)	(194)
Total impact to net cash flows from operating activities			(1,000)
Cash flows from investing activities			
Net cash outflow on loss of control over subsidiaries	-	(1,000)	1,000
Total impact to net cash flows from investing activities			1,000

SGX-ST's Query:

(b) material difference in the amount of the net cash used in investing activities of approximately US\$3,435,000, as compared to the unaudited financial results announcement of the Company of US\$2,435,000 for the financial year ended 30 June 2021.

Company's Response:

The difference of US\$1,000,000 is due to the reclassification of certain operating activities to net cash outflow on loss of control over subsidiaries under investing activities in relation to the Group has lost control over the cash and cash equivalents of IEG upon the appointment of the liquidator. Please refer to the details in (iii) (a) above.

SGX-ST's Query:

Please also explain as to whether and how the Company has complied with Listing Rule 704(6).

Company's Response:

This is a reclassification of certain operating activities from operating activities to investing activities arising from the loss of control over IEG. We are not aware of any material adjustment which we have not announced. The Company has complied with Listing Rule 704(6).

SGX-ST's Query:

(iv) Listing Rule 1207(10C) states that the annual report must contain enough information for a proper understanding of the performance and financial conditions of the issuer and its principal subsidiaries, including audit committee's comment on whether the internal audit function is independent, effective and adequately resourced.

Please clarify whether and how Listing Rule 1207(10C) has been complied with. Where the internal audit function is outsourced, please provide information on the relevant experience of the accounting firm and the engagement team.

Company's Response:

The Company has complied with Listing Rule 1207(10C) by disclosing the following at page 27 of the Annual Report:

For FY2021, the Company has appointed an external accounting firm, TRS Forensics Pte. Ltd. as the Internal Auditors of the Group to perform internal audit work under an internal audit plan. TRS Forensics Pte. Ltd. is a suitably appointed qualified firm of risk consultants (including Certified Internal Auditors), with its processes guided by the Standards for the Professional Practice of Internal Auditing set by the Institute of Internal Auditors. The Internal Auditors report directly to the chairman of the Audit and Risk Committee on all internal audit matters.

The role of the Internal Auditors is to support the Audit and Risk Committee in ensuring that the Company maintains a sound system of internal controls and risk management by monitoring and assessing the effectiveness of the key controls and procedures, conducting in-depth audits of high-risk areas and undertaking investigation as directed by the Audit and Risk Committee. The Audit and Risk Committee approves the hiring, removal, evaluation and compensation of the Internal Auditors. The Audit and Risk Committee ensures that the Internal Auditors are adequately resourced and has appropriate standing within the Company and has unfettered access to all the Company's documents, records, properties and personnel, including access to the Audit and Risk Committee.

The primary functions of internal audit are to:

- a) assess if adequate systems of internal controls are in place to protect the funds and assets of the Group and to ensure control procedures are complied with;*
- b) assess if operations of the business processes under review are conducted efficiently and effectively; and*
- c) identify and recommend improvement to internal control procedures, where required.*

The Audit and Risk Committee is satisfied with the adequacy and effectiveness of the internal audit function and assesses the same at least annually.

Further information on the relevant experience of TRS Forensics Pte. Ltd. and the engagement team is set out below:

Our internal audit function is outsourced to an independent service provider, TRS Forensics Pte. Ltd. ("TRS"), which is a technology-based professional services firm that specialises in the provision of risk advisory services including Internal Audit, Data Protection, Cybersecurity and Forensics Investigation. TRS is a suitably qualified firm comprising of risk consultants in various disciplines (including Certified Internal Auditors), with its internal audit processes guided by the International Standards for the Professional Practice of Internal Auditing set by the Institute of Internal Auditors. The firm currently maintains an outsourced internal audit portfolio of about 20 companies listed on the SGX-ST, Bursa-Malaysia and The Stock Exchange of Hong Kong in construction, property development, manufacturing, healthcare, logistics, engineering services, e-commerce and trading industries.

The Engagement Team for the internal audit comprises a Director and a Manager who are supported by a team of risk consultants. The Director, Mr Gary Ng, has close to 20 years of relevant experience whilst the Manager has more than 10 years of relevant experience.

SGX-ST's Query:

(v) *Provision 8.1 of the Code states that "The company discloses in its annual report the policy and criteria for setting remuneration, as well as names, amounts and breakdown of remuneration of:*

(a) each individual director and the CEO; and

(b) at least the top five key management personnel (who are not directors or the CEO) in bands no wider than S\$250,000 and in aggregate the total remuneration paid to these key management personnel." (emphasis added)

Listing Rule 710 requires issuers to explicitly state, when deviating from the provisions prescribed in the Code, the provision from which it has varied, explain the reason for variation and provide an explanation on how the practices it had adopted are consistent with the intent of the relevant principle. We note that the Company had not complied with Provision 8.1 of the Code with regards to (i) disclosure of the amounts of remuneration of each individual director and the CEO; and (ii) in aggregate the total remuneration paid to these key management personnel. Please clarify how the practices the Company had adopted are consistent with the intent of Principle 8 of the Code, which requires transparency on the Company's remuneration policies, level and mix of remuneration, the procedure for setting remuneration, and the relationships between remuneration, performance and value creation.

Company's Response:

The amount and breakdown of the remuneration of the Directors of the Company and the five (5) key management personnel of the Company have been disclosed in percentage terms under the remuneration tables on pages 23 and 24 of the Annual Report respectively.

As stated in the Annual Report, the Company has explained its deviation from Provision 8.1 of the Code with regard to the disclosure of the amounts of remuneration of each individual director and the CEO on page 24 of the Annual Report as follows:

Given the highly competitive industry conditions and the sensitivity and confidentiality of employee remuneration matters, the Company believes that the disclosure of the remuneration of individual Directors and executives as recommended by the Code would be disadvantageous to the Group's interests. The Board believes that by disclosing the breakdown showing the level and mix of remuneration paid to the Directors, and the types of compensation in percentage terms and in bands of S\$250,000, the current disclosure on remuneration is meaningful and sufficiently transparent in giving an understanding of the remuneration of the Directors, the Company's remuneration policies, level and mix of remuneration, performance and value creation.

Similarly, the Company has explained its deviation from Provision 8.1 of the Code with regard to the aggregate the total remuneration paid to these key management personnel on page 24 of the Annual Report as follows:

Given the highly competitive industry conditions and sensitivity and confidentiality of employee remuneration matters, the Company believes the disclosure of the remuneration individually and/or in aggregate of the key management personnel (who are not Directors or the CEO) would be disadvantageous to the Group's interests. The Board believes that by disclosing the breakdown showing the level and mix of remuneration paid to the key management personnel, and the types of compensation in percentage terms and in bands of S\$250,000, the current disclosure on remuneration is meaningful and sufficiently transparent in giving an understanding of the remuneration of the employees, the Company's remuneration policies, level and mix of remuneration, performance and value creation.

In view of the aforementioned reasons, the Company believes that its current disclosure is consistent with the intent of Principle 8 of the Code as shareholders are still given information on the level and mix of remuneration in percentage terms and that the interests of shareholders will not be prejudiced as a result of such non-disclosure of the total remuneration in dollar terms for the Directors as well as for key management personnel.

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

27 October 2021