2 Executive summary

2.1 Introduction

2.1.1 KPMG Forensic, a division of KPMG Services Pte. Ltd. (**"KPMG"**), was engaged on 18 December 2020 to conduct an independent review of New Silkroutes Group Limited (the **"Company"**) and its subsidiaries (the "**Group**"), with focus on the matters set out below (the **"Independent Review"**).

2.2 Background on the Matters

2.2.1 On 14 October 2020, Deloitte issued a disclaimer of audit opinion on the financial statements of the Group for the financial year ended (**"FY"**) 30 June 2020. The following two matters were qualified (the **"Matters"**):

- The **"Shanghai Fengwei Matter" –** The tripartite Management Agreement dated 18 April 2020 between the Company, Shanghai Fengwei Garment Accessory Co., Ltd (**"Shanghai Fengwei"**), a wholly owned subsidiary of the Company, and a third party, Shanghai Minlin New Textile Materials Sales Centre (**"Shanghai Minlin"**) (the **"MA**") and the Management Services Agreement dated 18 April 2020 between Shanghai Fengwei and Shanghai Minlin (the **"MSA"**); and
- The **"Thai GNCC Matter" –** The valuation of the Group's 4.534% equity interest in Thai General Nice Coal and Coke Co., Ltd (**"Thai GNCC"**).

2.3 Objective and scope of work

2.3.1 With respect to the Matters, the objectives of our Independent Review are to:

- investigate the circumstances leading to the Matters;
- review the Company's internal controls and governance structure;
- assess the impact of the Matters on the Company's financials, if any;
- establish whether *prima facie* evidence of improprieties in respect of the Matters exists; and
- identify additional issues in respect of the Matters, if any (e.g. potential breaches of the Singapore Exchange Securities Trading Limited (**"SGX-ST"**) Listing Manual (the **"Listing Manual"**).

2.3.2 The scope of our work to achieve the objectives is summarised below:

- Obtained an understanding of the background of the Matters and management's responses to the Matters.

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— Reviewed the supporting documents, including agreements, minutes of meetings, and accounting books and records in connection with the Matters to establish the chronology of events and circumstances of the Matters.
— Reviewed the internal policies and procedures in relation to the Matters.
— Performed background search procedures on selected corporate entities and individuals.
— Acquired and analysed the forensic images of the computer systems assigned to selected key personnel to identify prima facie evidence of improprieties in connection with the Matters.
— Conducted interviews with relevant parties.
— Performed a "maxwellisation" of our findings with the relevant persons referenced. We considered the comments raised by each of the relevant persons, and made necessary amendments to our report, if deemed valid.

2.4 Limitations of our observations

2.4.1 We did not access the Company's statutory auditors' and legal representatives' workpapers. Accordingly, we cannot comment on or assess the statutory audits of the Company and/or legal advice provided to the Company with respect to the Matters.

2.4.2 The starting date of our review period was dependent on the substance of the Matters and our review period ended at 31 March 2021, unless where stated.

2.4.3 The relevant time period for the Matters span from 2010 to date, with multiple changes in the composition of the Company's Board and key management. We outline the Company's directors and key management during the relevant period at Appendix A.1.

2.4.4 Our observations on the shareholdings and directorships of the relevant entities to the Matters are based on publicly available records, which may not include all historical changes in key corporate information, including fluctuations in beneficial ownership, shareholdings, directorships and key corporate personnel positions.

2.4.5 Due to the Company's email retention policies, the Company's IT representatives advised that the email archives of personnel who resigned prior to 2018 were unavailable for our review.

2.4.6 Our findings in relation to the Thai GNCC Matter are largely based on documents and correspondence made available for our Independent Review, as we were not able to complete formal interviews with key individuals who may have relevant knowledge on the Thai GNCC Matter and its related transactions, but either did not respond to or

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declined our request for a formal interview, or on the advice of the Company's counsel we did not proceed to interview.

2.4.7 Our Maxwellisation process was performed between September 2021 and October 2021. As part of our Maxwellisation process, we contacted 27 individuals, and we did not receive responses from all individuals contacted. All findings or inferences in this Report in relation to individuals and / or entities should be read subject to these limitations.

2.5 The Thai GNCC Matter

2.5.1 Background and current status of the Thai GNCC Acquisition

2.5.1.1 On 13 May 2011, the Company executed a sale and purchase agreement with Tianjin General Nice Coke & Chemicals Co., Ltd. (**"Tianjin GNCC"**) to acquire a 15% equity interest in Thai GNCC (the "**Thai GNCC SPA"**)[3] (the **"Thai GNCC Acquisition"**), which was in the business of processing coking coal into coke, with a coke processing plant in Rayong in southern Thailand (the **"Plant"**). The executed sale and purchase agreement states that the purchase consideration shall be an amount equivalent to the Singapore Dollar equivalent of 15% of the fair market value of Thai GNCC set out in a valuation report to be obtained from an approved independent valuer by Tianjin GNCC and the Company. For the Thai GNCC Acquisition, the Company paid two deposits totalling USD 13,757,384 and accrued interest of USD 4,002,612 thereon. The Company made an announcement in relation to the Thai GNCC Acquisition on the same day.

2.5.1.2 There were six extensions of its completion date and two amendments to reduce the Company's acquisition stake, and the Thai GNCC Acquisition was completed in May 2017 (the "**Thai GNCC Completion"**). All but one of the extensions of the Thai GNCC Completion date were announced by the Company, with justifications including Thai GNCC requiring time to develop the Plant's facilities and delays in obtaining the relevant approvals to operate the Plant. Section 2.5.4 details the findings on the Thai GNCC Completion.

2.5.1.3 Upon the Thai GNCC Completion, the Company acquired a 2.82% equity interest in Thai GNCC through its subsidiary International Energy Group Pte Ltd (**"IEG"**) reduced from the 15% equity interest stated in the Company's initial announcement of the Thai GNCC Acquisition, for a purchase consideration of USD 14,090,000.

[3] The Thai GNCC SPA was signed by the then CEO of the Company, on behalf of the Company and Ms. Cai Sui Rong, on behalf of the Tianjin GNCC.

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2.5.1.4 In June 2018, through IEG, the Company acquired, an additional 1.714% equity interest in Thai GNCC from Tianjin GNCC as full settlement of debts totaling USD 8,569,996 owing by Tianjin GNCC to the Company (the **"Tianjin GNCC Debt Repayment"**). The debts comprised the excess of the total deposits paid by the Company and accrued interest for the Thai GNCC Acquisition (i.e. USD 3,669,996), and prepayments of USD 4,900,000 made by the Company's subsidiaries, Top Post Enterprises Limited (**"Top Post"**) and Baling (China) Investment Limited (**"Baling"**). Accordingly, the total cost of the Company's 4.534% equity interest in Thai GNCC as of 30 June 2018 was USD 22,659,996. The Tianjin GNCC Debt Repayment was not announced by the Company.

2.5.1.5 The Group's FY2021 annual report states that as of FY2021, Thai GNCC has yet to commence its operations and the Group has no visibility to Thai GNCC's future nor access to its records. The Company's investment in Thai GNCC was deconsolidated from the Group upon the commencement of IEG's liquidation process on 5 January 2021.

2.5.2 Key findings of the Thai GNCC Acquisition

Source of funds for the Thai GNCC Acquisition

2.5.2.1 On 23 February 2011, the Company completed a private share placement to two investors, Fortune Woods Global Investment Limited (**"Fortune Woods"**) and Smartful Global Holdings Ltd (**"Smartful"**) (the **"2011 Placement"**), with proceeds raised totalling SGD 8,525,995. Fortune Woods and Smartful became the Company's two largest shareholders upon the completion of 2011 Placement, holding 10.80% and 5.86% of the Company's shares, respectively. Of the total proceeds raised, SGD 5,000,000 (USD 4,046,289) was paid to Tianjin GNCC as deposit for the Thai GNCC Acquisition (the **"First Deposit"**).

2.5.2.2 On 5 December 2012, the Company completed a rights issue which raised SGD 20,462,392.23 (the **"2012 Rights Issue"**). Of the total proceeds raised, an additional deposit of SGD 12,000,000 (USD 9,711,095) was paid by the Company for the Thai GNCC Acquisition (the **"Additional Deposit"**).

Relationships identified between the 2011 Placement investors and the Thai GNCC Acquisition parties

2.5.2.3 Documents identified in relation to the 2011 Placement investors indicate that:

— The sole shareholder of Fortune Woods is General Nice Resources (Hong Kong) Limited (**"GNR HK"**), and that Mr. Cai Sui Xin (**"Mr. Cai"**) is the ultimate beneficial owner of Fortune Woods and GNR HK.

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— The sole shareholder of Smartful, a company incorporated in British Virgin Islands on 8 October 2010, four months before the completion of 2011 Placement was Mr. Xiao De (**"Mr. Xiao"**).

2.5.2.4 Background searches and email correspondence identified links between the ultimate beneficial owner of 2011 Placement's investors (i.e. Mr. Xiao and Mr. Cai), and the parties of the Thai GNCC Acquisition via direct and indirect shareholdings and directorships before the execution of the Thai GNCC SPA, including:

— From March 2011, Mr. Xiao held an indirect shareholding in Tianjin GNCC. From June 2012, Mr. Xiao held a deemed interest in Tianjin GNCC.[4]

— Mr. Cai is Tianjin GNCC's Legal Representative[5] since its incorporation on 10 May 1994.

— Ms. Cai Sui Rong, sister of Mr. Cai Sui Xin (**"Ms. Cai"**) was a Director of Tianjin GNCC between 1994 and 2015.

2.5.2.5 As part of the Company's application to seek approvals from the SGX-ST for the 2011 Placement, the Company represented that Fortune Woods and Smartful were unrelated.[6] However, email correspondence indicates that:

— The intended investor for the 2011 Placement was GNR HK.

— The 2011 Placement, in which Fortune Woods and Smartful collectively acquired 16.67% of the enlarged share capital in the Company, was structured such that neither Fortune Woods nor Smartful would hold a controlling shareholding (i.e. 15% in the Company as defined in the Listing Manual).

— Prior to the Company's approval application for the 2011 Placement, the Company was aware of the transaction structure above (i.e. such that neither Fortune Woods nor Smartful would hold a controlling shareholding) and viewed Fortune Woods, GNR HK and Smartful as a single group.

2.5.2.6 If the 2011 Placement proceeded with Fortune Woods as the sole investor, the 2011 Placement would have been subject to Rule 803[7] of the Listing Manual and upon the completion of 2011 Placement, Mr. Cai would be deemed as a controlling shareholder of the Company and any subsequent transaction entered into with Mr. Cai or his associates would be regarded as interested party transaction under Chapter 9 of the

[4] From March 2011, Mr. Xiao held a 5.8% indirect shareholding in Tianjin GNCC. Pursuant to Sections 7(4) and (4A) of the Companies Act 1967, he held a deemed interest of 89.02% in Tianjin GNCC from June 2012.

[5] A Legal Representative is the individual who serves as the legal embodiment of the company's interests for purposes of the People's Republic of China Government. Their name appears on the company's business license and, under People's Republic of China law, the Legal Representative is responsible for the company and all of its operations.

[6] On 31 January 2011, the Company provided a response to SGX-ST stating "The Placees have confirmed to the Company that they have no connections (including any business relationship) directly or indirectly with each other."

[7] Rule 803 of the Listing Manual states that an issuer must not issue securities to transfer a controlling interest without prior approval of shareholders in general meeting.

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Listing Manual. Further, for the potential misrepresentations by the Company in relation to the 2011 Placement that Fortune Woods and Smartful were unrelated parties, the SGX-ST may not have taken the same course of action in granting the relevant approvals for 2011 Placement or may have applied additional conditions.

2.5.2.7 Consequently, as part of the Company's application to seek approvals from the Securities Industry Council (the **"SIC"**) for the 2012 Rights Issue and the corresponding whitewash waiver,[8] the Company also represented that Fortune Woods and Smartful were unrelated and not acting in concert as defined in the Singapore Code on Take-overs and Mergers (the **"Takeover Code"**) and excluded Smartful and Mr. Xiao from its definition of the Concert Party Group.

2.5.2.8 Our findings referred to at sections 2.5.2.4 and 2.5.2.5 contradict with the Company's representation to SIC. Given the broad definition of "acting in concert", the SIC may not have taken the same course of action in granting the whitewash waiver for the 2012 Rights Issue pursuant to Rule 14 of the Takeover Code, if the Company included Smartful and Mr. Xiao in the Concert Party Group for the 2012 Rights Issue, pursuant to the definition of "acting in concert" in the Takeover Code.

2.5.2.9 The 2012 Rights Issue increased Fortune Woods' shareholding in the Company from 10.8% to 22.15%, resulting in Fortune Woods becoming a controlling shareholder of the Company.

Appointments of GNR HK related individuals to the Company's Board and staff

2.5.2.10 SGX-ST's in-principle approval dated 14 February 2011 for the 2011 Placement was subject to the condition of "*a written confirmation from the Company that the Investors will not have Board or management representation as a result of the Placement to them*". However, email correspondence indicates that prior to the 2011 Placement, GNR HK had requested to have control of the Board after the 2011 Placement, to which the Board[9] at the material time agreed, and the CEO and CFO at the material time[10] planned the sequence of these appointments to avoid queries from the SGX-ST.

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[8] Pursuant to Rule 14.1 of the Takeover Code, the 2012 Rights Issue may have resulted in Fortune Woods and its concert parties to make a mandatory general offer, as their aggregate voting rights in the Company may have increased to 30% of more based on their enlarged issued share capital. The Company proposed to apply to the SIC for a waiver of the obligation for Fortune Woods and its concert parties to make a general offer for the Company under Rule 14 of the Takeover Code.

[9] Based on an email correspondence between 8 December 2010 and 30 December 2010 involving Mr. Teo Chee Hong (former Executive Director and CEO), Mr. Lim Koon Hock (former CFO and Joint Secretary), Dr. Robert Henry Keith Sloan (former Independent and Non-Executive Director), Dr. Poh Siew Chuan, Philip (former Executive Director) and Ms. Ong Beng Hong (former Independent and Non-Executive Director).

[10] Based on email correspondence dated 3 August 2011 between Mr. Teo Chee Hong (Former Executive Director and CEO) and Mr. Lim Koon Hock (Former CFO and Joint Secretary).

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2.5.2.11 After the 2011 Placement, individuals linked to Mr. Cai, GNR HK and Fortune Woods were employed by the Company or appointed to the Company's Board of Directors in the following sequence:

- Mr. Desmond Yong was employed by the Company as Business Advisor from 1 February 2011 to 31 January 2013. Documents identified that he was employed by Abterra Limited (**"Abterra"**) as its Corporate Finance Manager, during which Mr. Cai was Abterra's Director and Chairman.
- Mr. Ted Wong Tat Hei (**"Mr. Ted"**) was nominated by a substantial shareholder[11] and appointed as Independent and Non-Executive Director on 1 June 2011. He was identified as the 2011 Placement consultant for Fortune Wood and Smartful.
- Mr. Frank Yu (**"Mr. Frank"**) was appointed as a Non-Executive Director[12] of the Company on 1 March 2012. Documents identified indicate Mr. Frank was a party known to Mr. Cai and liaison for Fortune Woods.

2.5.2.12 The Company's representation to the SGX-ST, an approved exchange under the Securities and Futures Act 2001 that Fortune Woods and Smartful were not related and that there would be no Board or management representation by them as a result of the 2011 Placement, may potentially be in breach Section 330(1)[13] of the Securities and Futures Act 2001.

2.5.2.13 On 20 July 2012, between the date of the first announcement of the 2012 Rights Issue and the completion of the 2012 Rights Issue, the following individuals were appointed to the Company's Board:

- Mr. Cai was appointed as an Executive Director and Chairman; and
- Mr. Jaffe Lau Yu **("Mr. Jaffe")**, Director of Fortune Woods, and Director and shareholder of GNR HK, was appointed as the Executive Director and Vice Chairman of the Board.

2.5.2.14 Upon the completion of 2012 Rights Issue on 5 December 2012, the Board of the Company comprised of five individuals, four of whom were potentially related to GNR HK.

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[11] As at 30 June 2011, the Company's only substantial shareholders, holding a shareholding of at least 5%, were Fortune Woods and Smartful.

[12] On 16 August 2013, Mr Frank was re-designated from Non-Executive Director to Independent and Non-Executive Director - https://links.sgx.com/FileOpen/AnnouncementRedesignationofDirector.ashx?App=ArchiveAnnouncement&FileID=36074&AnncID=15D576C0099A8C8648257BC9003317F4

[13] Section 330(1) of the Securities and Futures Act 2001 sets out the duty on persons not to furnish false statements to approved exchanges and the SIC.

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Introduction of the Thai GNCC Acquisition to the Company

2.5.2.15 In late April 2011, approximately two months after the 2011 Placement, email correspondence and documents identified indicates that:

- Mr. Desmond provided the background of Thai GNCC Acquisition and introduced the working group for the Thai GNCC Acquisition, which included Mr. Jaffe (Director of Fortune Woods, and Director and shareholder of GNR HK), and the Company's CEO and CFO at the material time.
- The Board discussed the affordability and suitability of the Thai GNCC Acquisition, given that the Company was not in the business of coke processing, and on the methods to safeguard the deposit paid for the Thai GNCC Acquisition. To address the issue of affordability, Board meeting minutes indicate that Fortune Woods agreed to provide a deed of support to commit that it would contribute to the Company its share in the Company's funding of the Thai GNCC Acquisition.

Potential failure to disclose Directors' interests in the Thai GNCC Acquisition

2.5.2.16 The Company's announcement dated 13 May 2011[14] states *"The Vendor [Tianjin GNCC] owns 85% of the total share capital of Thai GNC. Porntanapat Intertrade Co., Ltd, a company established in Thailand, ("PIC") owns 14.99% of the Company [Thai GNCC]. The remaining 0.011% is held by an individual, Ms. Cai Sui Rong… Cai Sui Rong is the sister of Cai Sui Xin".*

2.5.2.17 The Company's announcements on 5 July 2013 and 2 August 2013 states *"None of the directors of the Company and/or their respective associates have any interest, direct and/or indirect, in the Proposed Acquisition [i.e. the Thai GNCC Acquisition]. None of the Directors of the Company and/or their respective associates are related, directly or indirectly, to Thai GNCC, its shareholders and/or directors"*.

2.5.2.18 However, background searches and email correspondence identified potential direct and indirect interests held by Mr. Cai, a Company director.[15]

- Since its incorporation in 1994, Mr. Cai has been Tianjin GNCC's Legal Representative (refer to section 2.5.2.4).
- The sister of Mr. Cai was a director of Tianjin GNCC, a director and shareholder of Thai GNCC, and also a director and shareholder of Porntanapat Intertrade Co. Ltd (**"PIC"**), the registered owner of the land on which the Plant is constructed. Although the Company announced on 13 May 2011 that Ms. Cai was a shareholder in Thai GNCC and that she is the sister of Mr. Cai, it did not announce Ms. Cai's shareholdings and directorships in Tianjin GNCC nor PIC.

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[14] Refer to section 2.5.1.1 on details of the Thai GNCC Acquisition.

[15] Mr. Cai was appointed as the Company's Executive Director and Chairman from 20 July 2012 to 31 October 2016 and Non-Executive Director and Chairman from 31 October 2016 to 8 December 2016.

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— Mr. Xiao, one of the ultimate beneficial owners of Tianjin GNCC was potentially related to Mr. Cai (refer to section 2.5.2.4).

2.5.2.19 At the points of the announcements dated 5 July 2013 and 2 August 2013, Mr. Cai was an Executive Director and Chairman of the Company. However, the announcements did not include the potential direct and indirect interest held by Mr. Cai[16] as described in paragraph 2.5.2.18, resulting in a potential breach of Rule 703(4)(a) of the Listing Manual read with paragraph 25(a) of Appendix 7.1 in connection with the disclosure requirements pursuant to Rule 1010(11)[17] of the Listing Manual.

2.5.2.20 The Thai GNCC Acquisition may be a related party transaction (**"RPT"**) pursuant to Singapore Financial Reporting Standards (International) 24: Related Party Disclosures (**"SFRS(I) 24"**),[18] as summarized below:

— At the time of the 2011 Placement, Mr. Cai may be regarded a controlling shareholder of the Company.

— Between 20 July 2012 and 8 December 2016, Mr. Cai was also an Executive Director of the Company.

— Mr. Cai was the Legal Representative of Tianjin GNCC, which in turn held 85% of shares in Thai GNCC. Further, Ms. Cai, the sibling of Mr. Cai, was on the Thai GNCC SPA date, a director of Tianjin GNCC, a director and shareholder of Thai GNCC holding four shares, and a director and shareholder of PIC holding an 18% interest[19].

2.5.2.21 Pursuant to Sections 201(2) and 201(5) of the Companies Act, Directors are responsible to present financial statements that comply with Accounting Standards issued by the Accounting Standards Council and give a true and fair view of the financial position and performance of the company. The Company did not disclose the Thai GNCC Acquisition as a RPT in its annual report, potentially in breach of Sections 201(2) and 201(5) of the Companies Act.

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[16] We did not identify email correspondence on the rationale to not include Mr. Cai's potential direct and indirect interest in the Thai GNCC Acquisition. We did not receive a response from the key personnel who were involved in the Thai GNCC Acquisition to our interview request and during the Maxwellisation process.

[17] Rule 1010(11) of the Listing Manual states: "Where any of the relative figures computed on the bases set out in Rule 1006 exceeds 5%, an issuer must, after terms have been agreed, immediately announce the following: Whether any director or controlling shareholder has any interest, direct or indirect, in the transaction and the nature of such interests."

[18] Paragraphs 9(a)(i) and 9(b)(vi) of Singapore Financial Reporting Standards (International) ("SFRS(I)") 1-24 Related Party Disclosures states that an entity is related to a reporting entity if a person who controls or jointly controls the reporting entity also has significant influence over the entity. Paragraph 9(b)(viii) of SFRS(I) 1-24 Related Party Disclosures states that an entity is related to a reporting entity if the entity provides key management personnel ("KMP") services to the reporting entity. KMP are individuals with the authority and responsibility for planning, directing and controlling the activities of the Company. Directors and members of the management team are considered to be KMP.

[19] Thai GNCC holds approximately 82% shareholdings in PIC.

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Subsequent resignations of the GNR HK related individuals from the Company's Board

2.5.2.22 On 31 October 2016, the Company announced that Mr. Jaffe and Mr. Frank ceased as Directors of the Company, effective 31 October 2016. On 7 December 2016, the Company announced the cessation of Mr. Cai as the Non-Executive Director and Chairman of the Board, effective 8 December 2016. At the cessation dates of Mr. Cai, Mr. Jaffe and Mr. Frank as the Directors of the Company, the Thai GNCC Acquisition had not yet completed.

Lack of safeguards on the refundability of Thai GNCC Acquisition deposits

2.5.2.23 On 23 May 2011, the First Deposit was paid by the Company to Tianjin GNCC's nominee, pursuant to the Thai GNCC SPA. Email correspondence indicate that the First Deposit was intended to be collateralised with part of the land on which the Plant was built. However, the executed Thai GNCC SPA did not include a clause to include the land as collateral for the First Deposit. We did not identify evidence to explain why the collateral was not included in the executed Thai GNCC SPA nor how the Company satisfied itself to safeguard the recoverability of the First Deposit paid.

2.5.2.24 On 23 June 2013, the Additional Deposit was paid by Company to General Nice Coke & Chemicals (Hong Kong) Company Limited, an entity wholly owned by Tianjin GNCC, with Ms. Cai listed as a Director. Email correspondence and draft amendments to the Thai GNCC SPA indicates that the Company proposed to pay the Additional Deposit with an interest rate of 10% p.a. and that the Company would hold a charge over Thai GNCC's assets for up to the amount of the deposits. However, the executed amendment to the Thai GNCC SPA did not include a clause for Tianjin GNCC to provide the Company a charge over Thai GNCC's assets for the Deposit and Additional Deposit paid. We did not identify evidence to explain how the Additional Deposit amount was determined, nor the rationale to remove the clause that Tianjin GNCC would pledge Thai GNCC's assets to the value of the First Deposit and the Additional Deposit.

Lack of due diligence prior to the Thai GNCC Acquisition deposits

2.5.2.25 No formal due diligence by external advisors was performed on the Thai GNCC Acquisition prior to the payments of the First Deposit and the Additional Deposit. The Company's announcement on 5 July 2013, after the Additional Deposit was paid, states that *"The due diligence investigations on Thai GNCC are in progress."* Financial due diligence performed by an external advisor appointed by the Company in 2015 includes an assessment of the independent valuation report of Thai GNCC. The assessment concluded that the fair market value of Thai GNCC as at 30 June 2015 of USD 508.5 million *"does not appear to be unreasonable."*

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The Thai GNCC Valuations

2.5.2.26 The Independent Review's key findings with respect to the historical Thai GNCC independent valuations (the "**Thai GNCC Valuations"**) are:

- Potential anomalies identified include identical valuation reports prepared by purportedly unrelated independent valuers.
- The income approach based on discounted cash flow was used by the independent valuers (i.e., Asset Appraisal Limited (**"AAL"**), Grandmax Surveyor Limited and Jones Lang LaSalle Corporate Appraisal and Advisory Limited) to perform the Thai GNCC Valuations between 2012 and 2020. The approach may be inappropriate given that the Plant was not operating commercially as at various valuation dates and there were multiple delays in obtaining relevant approvals and commissioning the Plant. We were not provided with responses to our queries related to the basis of key inputs used in the valuation analysis such as those related to forecast assumptions. As we have not been provided with the data requested, we cannot conclude on the reasonableness of the current valuation of Thai GNCC.
- With respect to the valuation of Thai GNCC for the Group's audited financial statement audit FY2017, an interviewee represented that the FY2017 auditors accepted the 2017 Thai GNCC Valuation based on a transaction in September 2017, wherein Tianjin GNCC sold a 5% equity interest in Thai GNCC to a purported third party, Techno Elite International Holdings Limited (**"Techno Elite"**) for a consideration of USD 25 million (the **"Techno Elite Transaction"**). Thai GNCC's corporate registration information as of 8 November 2018 (i.e. after the Techno Elite Transaction) did not include Techno Elite as a shareholder, instead, Tianjin GNCC was recorded as the shareholder with 85% shareholding, indicating that the Techno Elite Transaction did not occur.

2.5.2.27 Based on our factual findings on the lack of formal due diligence performed by the Company prior to the payments of the deposits, the lack of safeguards on the refundability of the deposits, potential undisclosed relationships with the Thai GNCC Acquisition parties, potential anomalies in the Thai GNCC Valuations and potential regulatory breaches identified above, we recommend that the Company consult with its legal counsel in light of the potential breaches of fiduciary duties of the Board at the material times pursuant to section 157 of the Companies Act 1967 and the duty on persons not to furnish false statements to approved exchanges and SIC pursuant to Section 330(1) of the Securities and Futures Act 2001.

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2.5.3 The Top Post and Baling transactions

2.5.3.1 On 20 December 2012, the Company announced via *SGXNet* the incorporation of Top Post as a wholly owned subsidiary of the Company (the **"Top Post Incorporation"**).[20]

2.5.3.2 On 19 February 2016, the Company announced via *SGXNet* that Top Post had subscribed for 99.97% of the shares in Baling (the "**Baling Subscription"**) for a consideration of HKD 35 million, which was funded by the proceeds of a rights issue by the Company in 2014 (the **"2014 Rights Issue"**).[21] No formal due diligence was performed by the Company on Baling prior to the Baling Subscription.

2.5.3.3 Between February and March 2016, Top Post and Baling made prepayments of USD 500,000 and USD 4,400,000, respectively, to Assure Win International Holdings Limited (**"Assure Win"**) to purchase iron ore fines (the **"Assure Win Transactions"**). In March 2016, Baling paid USD 90,000 to Sure Vantage Limited (**"Sure Vantage"**) for *"consultancy fees"* (the **"Sure Vantage Transaction"**). A copy of the cheque identified indicates that the prepayment of USD 500,000 was jointly signed by Mr. Jaffe and Mr. Frank. We did not identify the approver for the remaining payments. As delivery of the iron ore fines did not take place under the Assure Win Transactions and the prepayments could not be refunded, the Company agreed with Mr. Cai to convert the prepayments of USD 4,900,000 into additional shares in Thai GNCC as part of the Tianjin GNCC Debt Repayment in June 2018. Interviewees represented that the Company was "compensated" by Mr. Cai for the Assure Win Transactions as part of the 2018 Tianjin GNCC Debt Repayment. Mr. Cai had agreed to convert the Assure Win Transactions into an equity interest in Thai GNCC to compensate the Company for the non-delivery of the iron ore fines, notwithstanding that Mr. Cai was purportedly unrelated to the parties of the Assure Win Transactions and Tianjin GNCC. Section 2.5.4 details the findings on the Tianjin GNCC Debt Repayment.

2.5.3.4 Assure Win's signatory on the Assure Win Transaction agreements appears to be Mr. Xiao, based on a visual comparison of his signatures on identified documents. Our background searches did not identify the shareholders and directorship of Assure Win and Sure Vantage.

2.5.3.5 The Assure Win Transactions and the Sure Vantage Transaction were primarily funded by the 2014 Rights Issue proceeds and a payment made by a GNR HK related entity to Top Post, for "Project Sanguo" on 7 October 2014, a project relating to Information

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[20] https://links.sgx.com/FileOpen/AnnouncementIncorpofBVIsubsid.ashx?App=ArchiveAnnouncement&FileID=53177

[21] https://links.sgx.com/FileOpen/Announcement_subscription%20of%20shares%20in%20Baling%20-19.2.16.ashx?App=Announcement&FileID=390198

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Technology (**"IT"**) services provided by the Company to Tianjin GNCC. Top Post subsequently transferred USD 4,491,140 to Baling, of which USD 4,400,000 was paid to Assure Win and USD 90,000 was used to finance the payment for the Sure Vantage Transaction.

2.5.3.6 The Independent Review's key findings on the Top Post Incorporation and the Baling Subscription and its related transactions are:

- The Company announced via *SGXNet* that the Baling Subscription constitutes a discloseable transaction pursuant to Rule 1010 of the Listing Manual. Email correspondence indicates that the Baling Subscription was initiated by Mr. Jaffe and the relevant documents of Baling and the consideration for Baling Subscription were provided to the Company by Mr. Jaffe. We did not identify evidence to explain how the Company satisfied itself of the accuracy of its representation that Baling engaged in the international trading of natural resources, given that Baling was a dormant company upon the Baling Subscription.
- Background searches performed on the parties of the Baling Subscription identified that on 5 February 2016 (i.e. two weeks before the completion of the Baling Subscription), Baling's entire shareholding was transferred from an entity, Sure Vantage Limited to Mr. Wilson Tang. We did not identify the shareholders or directors of Sure Vantage to confirm whether this entity was the same entity involved in the Sure Vantage Transaction. However, email correspondence indicates that Mr. Jaffe was involved in the Sure Vantage Transaction. Further, background searches identified that Mr. Frank, Mr. Jaffe and Mr. Wilson Tang, the former sole shareholder of Baling, have a common direct shareholding in a Hong Kong entity.
- During the material times of the Top Post Incorporation, the Baling Subscription, and the Assure Win and Sure Vantage Transactions, Mr. Cai, Mr. Jaffe and Mr. Frank, individuals connected with GNR HK and Fortune Woods, were Directors of the Company. Documents identified indicate that after the completion of the Baling Subscription, the Directors of Top Post and Baling were Mr. Cai and Mr. Jaffe, and that the authorised bank signatories of the Top Post and Baling's bank accounts were Mr. Cai, Mr. Jaffe and Mr. Frank. Any two of the authorised signatories could approve bank transactions, with no transaction limits.
- Email correspondence indicates that after the completion of the Baling Subscription, GNR HK employees, not the Company's employees, maintained the Top Post and Baling accounting books and records and bank accounts. Although GNR HK employees periodically sent these records to the Company for its required reporting and consolidations, we did not identify service agreements that govern the maintenance of Top Post and Baling's books and records by non-Company personnel.

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- Notwithstanding the Company was Top Post's sole shareholder, email correspondence and interviewees represented that Top Post and Baling were effectively controlled by Mr. Cai, Mr. Jaffe and Mr. Frank. Email correspondence and interview representations below indicate that the other Company personnel were unable to influence Top Post and Baling's management decisions and operate their bank accounts. We did not identify evidence of the Company enforcing its rights as Top Post's sole shareholder to effect the change in the authorised signatories of the bank account of Top Post.
- Audit Committee meeting minutes and the Company's annual reports indicate that from its incorporation to its disposal, Top Post's principal activities were those of investment holdings, and was a dormant company. We did not identify evidence to explain why Top Post, being a dormant company, entered into one of the Assure Win Transactions.
- Email correspondence indicate that the other Company personnel was not aware of the Assure Win Transactions and the Sure Vantage Transaction upon their execution, until they received the bank statements of Top Post and Baling from GNR HK personnel. Email correspondence further indicate that there were delays in the Company obtaining the supporting documentation and explanations on the nature and purpose of the Assure Win Transactions and the Sure Vantage Transaction. Supporting documentation was provided to the Company by GNR HK employees under the instruction of Mr. Jaffe, with explanations provided by Mr. Jaffe that they were "*purely commercial decisions*", without further details provided.
- The agreements for the Assure Win Transactions specified the total prepayment amount but did not specify the unit price of the iron ore fines and the total purchase consideration. The prepayments were paid directly to Assure Win without any safeguards to protect the Group's interests.
- Email correspondence indicates that the Company did not appear to be aware of the identities of the signatories representing Top Post and Baling on the Assure Win Transaction agreements, notwithstanding that they were the Company's subsidiaries.
- Assure Win's signatory on the Assure Win Transaction agreements appears to be Mr. Xiao (i.e. Smartful's sole shareholder), based on a visual comparison of his signatures on identified documents. We could not identify the shareholders or directors of Assure Win as the information is not publicly available for a BVI entity.
- We have not identified evidence of the consultancy services being provided by Sure Vantage to Baling pursuant to the Sure Vantage Transaction. The format of the invoice purportedly issued by Sure Vantage to Baling for the Sure Vantage Transaction is identical to the format of a credit note and an invoice issued by Baling, suggesting that they may be created by the same source.
- On 20 May 2019, an agreement was executed between the Company and Ms. Choi Lai Kuen (**"Ms. Choi"**) to transfer 100% of the share capital in Top Post to Ms. Choi for a consideration of USD 100 (the **"Top Post Disposal"**). Following the Top Post Disposal, Top Post and Baling ceased to be subsidiaries of the Company.

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- Email correspondence in 2019 indicates that Ms. Choi was introduced to the Company by Mr. Cai and that she had no prior dealings with the Company. However, documents identified indicate that Ms. Choi and Mr. Cai may have a common directorship in an entity which granted a loan to a Director of the Company in 2015, suggesting that the Company may be aware of a potential relationship between Ms. Choi and Mr. Cai. Background searches also identified that Ms. Choi was a Director and shareholder of an entity which entered into a transaction with Abterra Limited, a SGX-ST Mainboard listed entity in which Mr. Cai was a Director.
- Email correspondence indicated and interviewees represented that the Top Post Disposal was part of a clean-up of the Group's dormant entities, and that the consideration of USD 100 was a nominal sum based on USD 1 per share in Top Post, notwithstanding that the bank balances of Top Post and Baling totaled USD 145,197 as at the Top Post Disposal. Interviewees represented that due to the Company's lack of control of the Top Post and Baling bank accounts, the balances therein totaling USD 145,197 were not recovered by the Company upon the Top Post Disposal.
- At the date of Top Post Disposal, the Company derecognised its investment in Top Post of USD 100 and recorded a loss from the Top Post Disposal of USD 100, indicating that the consideration of USD 100 was not received by the Company. An intercompany loan owing by Top Post to the Company of USD 1,163,954, which had been provided as loss allowance by the Company between FY2016 and FY2019, was wholly written off by the Company on 31 May 2019 in its accounts. Accordingly, there was no material financial impact for the Company arising from the Top Post Disposal in FY2019. In its FY2019 consolidated financial statements, the Company disclosed that the net cash outflow arising on the Top Post Disposal was USD 145,197, comprising the bank balances of Top Post and Baling as at 31 May 2019. The source of funds of these bank balances was the intercompany loans provided by the Company. We did not identify evidence to explain why the Top Post Disposal did not require the repayment of Top Post's outstanding intercompany loan as part of the purchase consideration.
- Project Sanguo refers to an agreement dated 21 March 2014 for the provision of IT system and integration services from the Company to Tianjin GNCC (the **"Project Sanguo Agreement"**). A total of USD 1.3 million was invoiced by the Company to Tianjin GNCC. The Company's books and records show USD 400,000 was not paid by Tianjin GNCC, but by its wholly owned subsidiary, General Nice Coke & Chemicals (Hong Kong) Company Limited (**"GNCC HK"**), with the outstanding receivable balance of USD 900,000 being written off by the Company in FY2018. At the time of the execution of the Project Sanguo Agreement, Mr. Cai was the Company's Chairman and Director, and was also the Legal Representative of Tianjin GNCC, the counterparty to the Project Sanguo agreement. Accordingly, the Project Sanguo transactions may be regarded as a RPT pursuant to SFRS(I) 24, which was not disclosed by the Company. The Company did not disclose the Project Sanguo Agreement as a RPT in its annual report, potentially in breach of Sections 201(2) and 201(5) of the Companies Act.
- At the time of the Baling Subscription, the Assure Win and Sure Vantage Transactions, Mr. Cai, Mr. Jaffe and Mr. Frank were Directors of the Company, and accordingly "related parties". Given that Mr. Cai may be a controlling shareholder of

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the Company as of the 2011 Placement as detailed at section 2.5.2.6 , Mr. Cai was potentially a controlling shareholder of the Company upon the Top Post Disposal[22], and accordingly, an interested person. Although we have not identified specific evidence to indicate the Baling Subscription, the Assure Win and Sure Vantage Transactions and the Top Post Disposal to be IPTs (i.e. we did not identify evidence to indicate that Mr. Cai, Mr. Jaffe and Mr. Frank each holds more than 30% shareholding in Assure Win and/or Sure Vantage), these transactions may be RPTs pursuant to SFRS(I) 24 given the circumstantial evidence, namely that the decisions and bank accounts of Top Post and Baling were effectively controlled by Mr. Cai, Mr. Jaffe and Mr. Frank, with its books and records maintained by GNR HK rather than Company personnel, the potential anomalies that Mr. Cai "compensated" the Company for the non-delivery of the iron ore fines by Assure Win into an equity interest in Thai GNCC, which purportedly is unrelated to Mr. Cai and relationships identified indicating that that Mr. Cai may have significant influence over Tianjin GNCC, Thai GNCC and Assure Win. As of the date of this Report, the Company has not disclosed the Baling Subscription, the Assure Win and Sure Vantage Transactions and the Top Post Disposal as RPTs. The Company did not disclose the Baling Subscription, the Assure Win and Sure Vantage Transactions and the Top Post Disposal as a RPT in its annual report, potentially in breach of Sections 201(2) and 201(5) of the Companies Act.

2.5.3.7 Based on the potential anomalies in the Top Post and Baling related transactions and potential regulatory breaches identified above, we recommend that the Company consult with its external legal counsel in light of the potential breaches of fiduciary duties of the Board pursuant to section 157 of the Companies Act 1967.

2.5.4 The Thai GNCC Completion and Tianjin GNCC Debt Repayment

2.5.4.1 A Supplemental Agreement dated 17 February 2017 (the **"Supplemental Agreement"**) was executed between the Company and Tianjin GNCC to effect the acquisition of the 2.82% equity interest in Thai GNCC. According to the initial Thai GNCC SPA, the purchase consideration was based on an independent valuation of Thai GNCC, whose main asset is the Plant. However, the Supplemental Agreement replaced clause 3.2 of the Thai GNCC SPA from *"The Purchase Consideration shall be an amount equivalent to the S$ equivalent of 15% of the Valuation Amount…"* to *"The Purchase Consideration shall be US$ 14,090,000"*, with an implied valuation of Thai GNCC at USD 500 million. We did not identify an independent valuation report of Thai GNCC for USD 500 million. An interviewee represented that the valuation of USD 500 million was determined by Mr. Cai, the Legal Representative of Tianjin GNCC. Email correspondence indicates that the

[22] "Controlling shareholder" is defined in the Listing Manual as "a person who: (a) holds directly or indirectly 15% or more of the nominal amount of all voting shares in the company. The Exchange may determine that a person who satisfies this paragraph is not a controlling shareholder; or (b) in fact exercises control over a company".

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latest independent valuation of Thai GNCC prior to the Thai GNCC Completion was USD 478 million.

2.5.4.2 Upon the Thai GNCC Completion, there was an excess of USD 3,669,996, being the difference between the First Deposit and Additional Deposit paid by the Company and accrued interest thereon (i.e. USD 17,759,996) and the purchase consideration of USD 14,090,000 (the **"Excess Deposit"**). The Excess Deposit was converted into a non-interest-bearing loan from the Company to Tianjin GNCC upon the Thai GNCC Completion. The Excess Deposit comprised the portion of the accrued interest from the deposits paid, which remained outstanding from Tianjin GNCC to the Company. The Company did not announce the conversion of the Excess Deposit into a loan granted to Tianjin GNCC.

2.5.4.3 Email correspondence identified indicates the Board discussed and approved the 2.82% equity interest acquisition in Thai GNCC and the conversion of Excess Deposit into a non-interest-bearing loan from the Company to Tianjin GNCC upon the Thai GNCC Completion. Interviewees represented the Company could not recover the Deposit and Additional Deposit from Tianjin GNCC as in or around 2015, Mr. Cai informed them that the First Deposit and the Additional Deposit had been fully utilised to build the Plant. Interviewee represented that a conversion of the First Deposit and Additional Deposit into equity in Thai GNCC was the best available option to recover the deposits made. The Company partially converted the First Deposit and Additional Deposit into an equity interest in Thai GNCC (i.e. the 2.82% equity interest), with the Excess Deposit into a loan which was ultimately converted into an additional equity interest in Thai GNCC. During the period between the conversion of the Excess Deposit from a loan to an equity interest in Thai GNCC, the Company sought Thai GNCC to obtain the necessary licenses to operationalize the Plant to justify the Excess Deposit's conversion of loan into an additional equity interest in Thai GNCC.

2.5.4.4 Email correspondence and interviewees represented that the Company's acquisition of the 2.82% equity interest in Thai GNCC was based on the maximum equity interest the Company could acquire without exceeding the 20% acquisition limit for "discloseable transactions", as outlined in Rule 1010 of the Listing Manual. It appears that the Thai GNCC Acquisition and the conversion of Excess Deposit into a loan granted to Tianjin GNCC were structured into two separate arrangements in order to avoid triggering Rule 1014 of the Listing Manual, which would deem the Thai GNCC Acquisition as a "major

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transaction" requiring shareholders' approval. Accordingly, shareholders' approval was not obtained for the Thai GNCC Acquisition.

2.5.4.5 On 26 June 2018, the Company entered into the Tianjin GNCC Debt Repayment with Tianjin GNCC as full settlement of the debts owing by Tianjin GNCC to the Group totalling USD 8,569,996.28, comprising:

- The Excess Deposit of USD 3,669,996.28, the subject of the Tianjin GNCC Loan;
- USD 500,000 owing to Top Post by Assure Win; and
- USD 4,400,000 owing to Baling by Assure Win.

2.5.4.6 Pursuant to the Tianjin GNCC Debt Repayment, the aggregated debt amount was settled in full by 31 August 2018, through the transfer of 857,000 Thai GNCC shares by Tianjin GNCC to the Company's subsidiary, IEG, representing a 1.714% equity interest in Thai GNCC. As a result of the Thai GNCC Completion and the Tianjin GNCC Debt Repayment, the Company held a total equity interest of 4.534% in Thai GNCC. The Tianjin GNCC Debt Repayment was not announced by the Company.

2.5.4.7 Although Mr. Cai had ceased to be the Director of the Company upon the Thai GNCC Completion and Tianjin GNCC Debt Repayment, he was the ultimate beneficial owner of the Fortune Woods, a controlling shareholder of the Company. He was also the Legal Representative of Tianjin GNCC, who in turn was a shareholder of Thai GNCC. Ms. Cai, Mr. Cai's sister, was a Director and shareholder of Thai GNCC. Accordingly, the Thai GNCC Completion, the conversion of the Excess Deposit into a non-interest-bearing loan from the Company to Tianjin GNCC, and the Tianjin GNCC Debt Repayment may be related party transactions ("RPT") pursuant to Singapore Financial Reporting Standards (International) 24: Related Party Disclosures ("SFRS(I) 24"). The Company did not disclose the Thai GNCC Acquisition as a RPT in its annual report, potentially in breach of Sections 201(2) and 201(5) of the Companies Act.

2.5.5 Lack of internal controls during the Thai GNCC Matter

2.5.5.1 Our factual findings indicate that there was no formal due diligence performed by the Company prior to the payments of the First Deposit and Additional Deposit, lack of safeguards on the refundability of the First Deposit and Additional Deposit, potential undisclosed relationships with the Thai GNCC Acquisition parties, potential anomalies in the Thai GNCC Valuations and potential regulatory breaches. Our factual findings suggest that the Company may lack adequate and effective internal controls and risk management systems. Further, during the material time of the Thai GNCC Matter, interviewees represented that the identification of IPTs and RPTs were reliant on self-declarations by the relevant persons. There were no formal written policies and procedures in relation to the following areas being adopted and implemented at the

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Company level, Top Post nor Baling, potentially in breach of Rule 719(1) of the Listing Manual:[23]

- Acquisitions and disposals;
- Valuations of purchase considerations with respect to potential acquisitions;
- Identification and assessment of IPT and RPT;
- Subsidiary controls;
- Identification and assessment of adjustments / provisions for impairments;
- Bank authorisations and signatories (including approval matrices and delegations of authority); and
- Procurement processes and payments (including approval matrices and delegations of authority).

2.5.5.2 In addition, we noted that there were no independent internal audits undertaken on the IPTs and/or RPTs in relation to the Thai GNCC Matter.

2.5.5.3 Notwithstanding that the Board of Directors and Audit Committee meeting minutes identified included an item on IPTs in the meeting agenda, the potential IPTs/RPTs identified in the Independent Review were not disclosed and/or identified in the meeting minutes.

2.5.5.4 To mitigate the reliance on individual IPT/RPT declarations, the Company should consider establishing independent audits to ensure that the policies on IPT/RPT meet the relevant regulatory requirements, and that declarations are complete and accurate.

2.5.5.5 The Company should consider implementing formal policies and procedures for proposed transactions (or subsequent amendments of key terms of executed transactions) to cover matters including:

- due diligence on the proposed transactions and risks of the target(s) of proposed acquisitions;
- documented negotiations between the Company and the vendor(s) on the terms and conditions and purchase consideration, including the rationale and approval of any changes in the terms of transactions, purchase considerations and/or cancellations;
- securitisation of deposit payments with appropriate supporting documentation;
- assessment and approvals of potential IPT/RPTs and/or conflicts of interest arising from the proposed transactions, including external advice, if required;
- assessment and approvals of external vendors (e.g. independent valuers);
- documentation to ensure a complete audit trail of internal controls and governance; and

[23] Rule 719(1) of the Listing Manual requires an issuer to have adequate and effective systems of internal controls and risk management systems.

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— independent audits to periodically monitor the formal process and documentation to ensure appropriate functioning and compliance.

2.5.6 Financial impact of the Thai GNCC Matter

2.5.6.1 The total amount paid by the Company for the Thai GNCC Acquisition, Assure Win Transactions and Sure Vantage Transaction is tabulated below.

S/N	Transactions	Amount (USD)
1	Thai GNCC Acquisition – First Deposit and Additional Deposit (refer to section 2.5.2.1 and 2.5.2.2)	13,757,384
2	Assure Win Transactions (refer to section 2.5.3.3)	4,900,000
3	Sure Vantage Transaction (refer to section 2.5.3.3)	90,000
	Total	**18,747,384**

2.5.6.2 From the Thai GNCC Acquisition to the date of this Report, the Plant has not commenced commercial operations, and we were unable to obtain the requisite information to conclude on the reasonableness of the current valuation of Thai GNCC. As of 30 June 2021, the Company has commenced the liquidation process of IEG, the wholly owned subsidiary of the Company, which holds the equity interest in Thai GNCC. Based on the FY2021 audited financial statements, the Group deconsolidated IEG's related assets and liabilities as of 5 January 2021, which included the 4.534% equity interest in Thai GNCC. As a result, the Group recognised a loss amounting to USD 15,611,000 arising from deconsolidation of IEG, and reclassified the fair value reserve of USD 5,468,000 to accumulated losses. The financial impact of the Group's equity interest in Thai GNCC from the Thai GNCC Acquisition to 30 June 2021 based on the FY2017 to FY2021 audited financial statements is tabulated below.

The Group's interest in Thai GNCC at FVTOCI	Amount (USD)
Cost of investment	22,659,996[24]
Less: Impairment	
— FY 2018	(987,476)
— FY 2019	(1,936,016)
— FY 2020	(2,544,699)
Fair value loss arising from the deconsolidation of IEG	(17,191,806)
Carrying amount as of 30 June 2021	**NIL**

[24] Being the sum of the First Deposit, Additional Deposit, the interest accrued on the aforesaid deposits, and Assure Win Transactions.

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2.6 The Shanghai Fengwei Matter

2.6.1 The Shanghai Fengwei acquisition

2.6.1.1 On 13 August 2018, the Company announced via *SGXNet* that:[25]

- The Company and its subsidiary had entered into a share sale and purchase agreement with the shareholders of Shanghai Fengwei to acquire 100% of the shares in Shanghai Fengwei for a purchase consideration of SGD 12,500,000 (the **"Shanghai Fengwei Acquisition"**);
- SYY Capital Holdings Pte. Ltd. ("**SYYCH**") and WTL Capital Holdings Pte. Ltd. ("**WTLCH**") executed a subscription agreement with the Company whereby 100% of the subscription proceeds would be utilised for the Shanghai Fengwei Acquisition. (the **"2018 Subscriptions"**);
- The shareholders of SYYCH and WTLCH were the shareholders and/or key personnel Shanghai Fengwei.

2.6.1.2 The 2018 Subscription was completed on 22 February 2019,[26] with proceeds raised totalling SGD 10 million.

2.6.1.3 Pre-acquisition financial, tax and legal due diligence was performed by external advisors, including an independent enterprise valuation of Shanghai Fengwei for the Shanghai Fengwei Acquisition. On 2 January 2019, the Company announced via *SGXNet* the completion of the Shanghai Fengwei Acquisition, upon which Shanghai Fengwei became a wholly owned subsidiary of the Company. On 22 February 2019, the Company announced via *SGXNet* the completion of the 2018 Subscriptions.[27]

2.6.1.4 On 16 October 2018, the Company released a circular (the "**2018 Circular**")[28] via *SGXNet* to its shareholders to convene an extraordinary general meeting (**"EGM"**) to approve the 2018 Subscriptions and the Shanghai Fengwei Acquisition. The 2018 Circular states that each subscriber of the 2018 Subscription had provided an undertaking that each of them will, in the exercise of their voting power as shareholder of the Company, act independently and that there is no agreement, understanding or voting arrangement between them.

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[25] https://links.sgx.com/FileOpen/NSG%20Announcement_Nonwoven%20SPA%20and%20Placement.7%20cln.ashx?App=Announcement&FileID=521398

[26] https://links.sgx.com/1.0.0/corporate-announcements/BFUC79SWSISU6XRM/f0f8d3ea0c822eb0a603b809b51a3e5d02513d6442b9058834aa45bb93da1a2b

[27] https://links.sgx.com/1.0.0/corporate-announcements/BFUC79SWSISU6XRM/f0f8d3ea0c822eb0a603b809b51a3e5d02513d6442b9058834aa45bb93da1a2b

[28] https://links.sgx.com/FileOpen/NSG%20Circular.ashx?App=Announcement&FileID=529693

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2.6.1.5 Our key findings on the Shanghai Fengwei Acquisition are:

- The Company's records indicate that SGD 2 million of the purchase consideration of SGD 12.5 million for the Shanghai Fengwei Acquisition remains outstanding and payable by the Company to the vendors of Shanghai Fengwei. The partial payment of the Shanghai Fengwei Acquisition was funded by the proceeds of the 2018 Subscriptions and a private placement to a third party individual. Notwithstanding the outstanding purchase consideration, Shanghai Fengwei's share register issued by the Shanghai Administration for Industry and Commerce dated 27 December 2018 shows the Company as its sole shareholder.
- Contradicting the Company's representation[29] in the 2018 Circular, interviewees represented that the shareholders of SYYCH and WTLCH act and vote together in the matters of the Company. Interviewees represented that the Company was reliant on the shareholders of SYYCH and WTLCH to abide by the undertakings, and that no further checks were performed by the Company to ensure the undertakings are complied with. We did not identify evidence that the Company was aware of the agreement between the shareholders of SYYCH and WTLCH acting together for shareholders' votes.
- The combined shareholding of SYYCH and WTLCH in the Company pursuant to the 2018 Subscription is 16.88%, meeting the definition of "controlling shareholder" as defined in the Listing Manual. Accordingly, there could be a misrepresentation to the SGX-ST regarding the undertakings made by the shareholders of SYYCH and WTLCH that they act independently in the exercise of their voting power as shareholder of the Company.

2.6.2 The MA and the MSA

2.6.2.1 On 27 and 29 May 2020, the Company announced via *SGXNet* that it had entered into the MA dated 18 April 2020, pursuant to which the Company assigned to Shanghai Minlin the management rights of Shanghai Fengwei between 1 January 2020 and 31 December 2021 (the **"MA Period"**) (the **"Assignment"**). Pursuant to the MA, all profits and losses during the MA Period was assigned to Shanghai Minlin, with the cumulative net profits to be distributed only at the end of the MA Period. In consideration of the Assignment, Shanghai Minlin paid SGD 4 million to the Company (the **"MA Consideration"**).

2.6.2.2 On 18 April 2020, Shanghai Fengwei and Shanghai Minlin executed the MSA. The Company was not a party to the MSA. Pursuant to the MSA, Shanghai Minlin agreed to provide management services to Shanghai Fengwei, including human resource management and marketing services, for the period between 1 April 2020 and 31 December 2020 (the **"MSA Period"**). In consideration of the management services provided by Shanghai Minlin, Shanghai Fengwei would, during the MSA Period, pay a

[29] Section 2.4.6 of the 2018 Circular states that each subscriber of the 2018 Subscription, and Mr. Wang Huinuo had provided an undertaking that each of them will, in the exercise of their voting power as shareholder of the Company, act independently and that there is no agreement, understanding or voting arrangement between them.

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monthly fee to Shanghai Minlin equal to Shanghai Fengwei's profits above a "base profit" amount. The base profit was Shanghai Fengwei's average monthly profit before tax (excluding non-operating income) between January and March 2020 (the **"Base Profit"**).[30] If Shanghai Fengwei's actual monthly profit during the MSA Period was less than the Base Profit, Shanghai Minlin would pay Shanghai Fengwei the shortfall. An interviewee represented that the execution of the MSA allowed Shanghai Minlin to be paid on a monthly basis instead of at the end of the MA period, and the rationale of the Base Profit was to hold back funds until the end of the MA period, to protect Shanghai Fengwei in the event that Shanghai Minlin was unable to pay any losses incurred by Shanghai Fengwei.

2.6.2.3 On 28 October 2020, the Company announced via *SGXNet*[31] that the rationale for the MA and the MSA was, *inter alia*, to obtain a guaranteed profit to mitigate the uncertainties due to COVID-19, to receive upfront cash in order to repay a loan owing to a financial institution (the **"Haitong Loan"**),[32] and to enable Shanghai Fengwei to secure new sales contracts through customers introduced by Shanghai Minlin.

2.6.2.4 Our key findings on the MA and the MSA are as follows:

- Email correspondence between the Company's Board and management indicates that the Company's rationale to execute the MA was to receive an immediate cashflow to repay the Haitong Loan, in exchange for the rights to operate Shanghai Fengwei, and 100% of Shanghai Fengwei's profits and losses during the MA Period.
- Email correspondence indicated and interviewees represented that notwithstanding that the Board was aware of the substance of the MA arrangement, the MA was executed by Dr. Goh Jin Hian (**"Dr. Goh"**) without the Board reviewing and approving the MA, and without legal advice obtained prior to its execution, due to the Company's urgency to repay the Haitong Loan. Interviewees represented that the contents of the MA were negotiated by Mr. Shen Yuyun (**"Mr. Shen"**), Executive Chairman of Shanghai Fengwei at the material time and Mr. Lin Jie (**"Mr. Lin"**), the ultimate beneficial owner of Shanghai Minlin, without input from the Board. On 21 May 2020, the Contract Fee of RMB 20 million (i.e. SGD 4 million) pursuant to the MA was paid by WTLCH on behalf of Shanghai Minlin to the Company. Following the receipt of the Contract Fee, the Company's bank records show that the Haitong Loan was fully paid by the Company on 28 May 2020.

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[30] Upon the execution of the MSA, the Base Profit was CNY 1,121,449.30 (i.e., average monthly profit of Shanghai Fengwei, excluding its non-operating income, from January to March 2020), based on Shanghai Fengwei's FY2020 unaudited management accounts.

[31] https://links.sgx.com/FileOpen/NSG%20Ancmt%20Response%20to%20Queries%20on%20Disclaimer.final.ashx?App=Announcement&FileID=636935

[32] A convertible loan agreement dated 25 May 2018 was executed between Haitong International Financial Products (Singapore) Pte. Ltd as the lender and the Company as the borrower for a convertible loan facility of up to a maximum amount of SGD5,000,000. The maturity date of the Haitong Loan was 1 June 2020.

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- The MSA was discovered by the Company's auditors during the FY2020 audit procedures. Interviewees represented that the MSA was arranged and executed by Mr. Shen and Mr. Lin without the involvement and awareness of the other Company personnel, and without legal advice nor Board approval obtained prior to its execution.
- Interviewees represented that although the MA and MSA are standalone agreements, they are in substance back-to-back agreements to achieve a single financing arrangement for the Company. Interviewees represented that there was no material involvement by Shanghai Minlin in the operations of Shanghai Fengwei. Shanghai Minlin did not perform the services as stated in the MA and MSA. The purpose of the MSA was to facilitate the monthly distribution of Shanghai Fengwei's profits in excess of the Base Profit to Shanghai Minlin, whilst also achieving tax efficiencies, including reductions in corporate income tax and withholding tax. Given the MSA did not have a material benefit for Shanghai Fengwei, in view of the lack of services provided by Shanghai Minlin, the economic substance of the MSA does not appear to be justifiable without considering the terms of the MA, under which Shanghai Minlin paid SGD 4 million to the Company.
- The key terms of the MA and the MSA differ, including its payment terms. Monthly fees are payable pursuant to the MSA. Pursuant to the MA, no funds were payable by the Company to Shanghai Minlin until the end of the MA Period. Interviewees represented that at the end of the MA Period, the Company, Shanghai Fengwei and Shanghai Minlin would perform a final reconciliation exercise to determine the actual amount payable to Shanghai Minlin.

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— The financial impact (excluding VAT) of the MA and MSA to the Group is tabulated below.

S/N	Transactions	Transaction dates	Amount (CNY)
1	Contract Fee of RMB 20 million received by the Company	21 May 2020	20,000,000.00
Fees payable by the Group pursuant to the MA and MSA			
2	MSA fee paid by Shanghai Fengwei	Between 21 May 2020 and 22 January 2021	(69,189,933.96)
3	Amount paid by Shanghai Fengwei to Shanghai Minlin pursuant to the Clause 2 and 5 of the MA[33]	4 January 2022	(20,000,000.00)
4	Remaining balance payable to Shanghai Minlin pursuant to the Clause 2 and 5 of the MA[34]	N/A	(4,010,272.43)
Total fees payable by the Group pursuant to the MA and MSA			**(93,200,239.39)**
		Total	**(73,200,206.39)**

— As of 13 June 2022, CNY 4,010,272.43 remains outstanding. Further, Shanghai Minlin has requested payment of an additional CNY 933,027.23, which comprises Shanghai Fengwei's audit and management fees during the MA Period, which Shanghai Minlin stated should be borne by the Company and excluded from Shanghai Fengwei's net profit calculations.

— In the Company's announcement dated 28 October 2020, it announced that the revenue increase in the fourth quarter ended 30 June 2020 was largely attributed to new orders introduced by Shanghai Minlin under the MA and the MSA. However, a monthly analysis of Shanghai Fengwei's non-woven sales revenue for the 2019 and 2020 calendar year, which comprised 95% of its total revenue, indicated that Shanghai Fengwei's revenue increase was primarily caused by an increase in product price, rather than the higher revenue generated from new customers. During the MA and MSA Periods, most sales orders were received from existing customers of Shanghai Fengwei. This was corroborated by interview representations, that the cause of the revenue increase in 2020 was not attributable to the introduction of new customers by Shanghai Minlin, but due to COVID-19 related market forces, and the subsequent increased demand for Shanghai Fengwei's non-woven materials to

[33] Clause 2 of the MA states "All profits and losses generated by Shanghai Fengwei are assigned to Shanghai Minlin, regardless of whether the actual operating income of Shanghai Fengwei during the contracted period is higher or lower than the total Contract Fee, it has nothing to do with the Company and shall be enjoyed or borne by Shanghai Minlin." Clause 5 of the MA states "Shanghai Minlin shall ensure that Shanghai Fengwei's net asset position remains unchanged during the period. Net asset position of Shanghai Fengwei is fixed, being the reported net assets as at 31 December 2019 (based on Shanghai Fengwei's 2019 annual report)."

[34] Excluding the audit and management fees of CNY933,027.23 which Shanghai Minlin stated in its Payment Request Letter to the Company dated 22 January 2022 should be borne by the Company and excluded from Shanghai Fengwei's net profit calculations.

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produce personal protective equipment.

- The accounting and tax treatment of the fees paid by Shanghai Fengwei to Shanghai Minlin as consultancy and management expenses may not be appropriate, as it does not reflect the actual nature and purpose of the payment, which appears to be the distribution of Shanghai Fengwei's profits, rather than payments in exchange for management services. Accordingly, there may be tax exposures for Shanghai Fengwei arising from the potential miscategorisation of the fees paid pursuant to the MSA. We recommend that the Company and Shanghai Fengwei consult its auditors, the People's Republic of China (**"PRC"**) legal counsel and tax advisors to determine the appropriate accounting treatment of the fees paid pursuant to the MSA, and any potential tax exposure.
- Legal advice obtained by the Company indicate that the MSA may not be legally binding pursuant to PRC law and it may be deemed to be void *ab initio*. If so, any benefits obtained by the parties to the MSA should be returned. We recommend that the Company and Shanghai Fengwei consult its PRC legal counsel to determine the enforceability of the MSA and the recoverability of the funds paid pursuant to the MSA, in the event it is voided.
- Shanghai Fengwei personnel confirm that Shanghai Fengwei did not maintain formal policies and procedures with respect to vendor management and procurement processes and payments before February 2021. For completeness, we were provided with copies of written policies and procedures for financial management (including investment related approvals, accounts receivable management and cash management) and an authorisation matrix for payments dated February 2021.

2.6.2.5 SFRS(I)10: Consolidated Financial Statements states that *"an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee".* Notwithstanding the operation of the MA and the MSA, the Company continued to consolidate Shanghai Fengwei in its FY2020 financial statements. We did not identify evidence that the Company ceased to satisfy all three elements[35] of control pursuant to SFRS(I)10 during the MA and MSA Periods:

- As Shanghai Fengwei's sole shareholder, the Company continues to control Shanghai Fengwei's relevant activities[36] and financing and operating decisions, through the Company's control of the composition of Shanghai Fengwei's board. We did not identify evidence of side agreements which impose limitations on the Company's rights to directors' appointments and removals during the MA and MSA Periods.

[35] The three elements of control pursuant to SFRS(I) 10 are cumulative, and an investor controls an investee if and only if the investor has power over the investee, exposure, or rights, to variable returns from its involvement with the investee and the ability to use its power over the investee to affect the amount of the investor's returns.

[36] In accordance with KPMG Insights 17th Edition – para 2.5.60.10 *"The 'relevant activities' of the investee are the activities of the investee that significantly affect the investee's returns"*. Shanghai Fengwei's relevant activities are primarily related to production, processing and sale of non-woven materials.

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— The Company's exposure to variable returns arising from its interest and involvement in Shanghai Fengwei during MA and MSA Periods are not limited to its profits or losses, but also encompasses other forms of variable returns, including changes in the fair value of its investment in Shanghai Fengwei, and its residual interest in the Shanghai Fengwei's assets and liabilities on liquidation.

— There is a linkage between the Company's power over the relevant activities and variable returns generated by Shanghai Fengwei, given that Shanghai Fengwei's Executive Chairman was mandated by the Company to make decisions in line with the strategic objectives of the Company and was remunerated as a Director of the Company for his services. Further, email correspondence indicates that Shanghai Fengwei periodically reported on the operational and financial decisions affecting Shanghai Fengwei to the Company.

2.7 Potential contraventions of Listing Rules, Laws and Regulations

2.7.1 The Thai GNCC Matter

2.7.1.1 Based on our findings at sections 2.5.2.10 to 2.5.2.12, the Company is potentially in breach of Section 330(1) of the Securities and Futures Act 2001 by providing inaccurate representations to SGX-ST, an approved exchange under the Securities and Futures Act 2001, that Fortune Woods and Smartful were not related and that there would be no Board or management representation by them as a result of the 2011 Placement. Had their relationship been made known to SGX-ST, the 2011 Placement may have been subject to shareholders' approval pursuant to Rule 803 of the Listing Manual. Consequently, the Company may have been in breach of the Rule 803 for its failure to seek the requisite approval from shareholders.

2.7.1.2 Based on our findings in sections 2.5.2.16 to 2.5.2.19, the Company is potentially in breach of Rule 703(4)(a) read with paragraph 25(a) of Appendix 7.1 of the Listing Manual in connection with the disclosure requirements pursuant to Rule 1010(11)[37] of the Listing Manual by failing to disclose the interest held by the Company's directors and controlling shareholders in the Thai GNCC Acquisition.

2.7.1.3 Based on our findings in sections 2.5.2.21, 2.5.3.6 and 2.5.4.6, the directors of the Company is potentially in breach of Sections 201(2) and 201(5) of the Companies Act

[37] Rule 1010(11) of the Listing Manual states: "Where any of the relative figures computed on the bases set out in Rule 1006 exceeds 5%, an issuer must, after terms have been agreed, immediately announce the following:… Whether any director or controlling shareholder has any interest, direct or indirect, in the transaction and the nature of such interests."

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by failing to disclose related party transaction pursuant to the SFRS(I) 24, an accounting standard issued by the Accounting Standard Council.

2.7.1.4 Overall and in light of the irregularities identified in the Thai GNCC Matter, there is a potential breach of Listing Rule 720(1), which requires an issuer to procure undertakings to comply with the Exchange's listing rules from all its directors and executive officers (in the form set out in Appendix 7.7) and submit the undertakings to the Exchange if required. An issuer must comply with Rule 210(5), Rule 221 (if applicable) and Rule 210(9)(e) (if applicable) on a continuing basis.

2.7.1.5 We recommend that the Company consult with its external legal counsel to assess the above potential contraventions of Listing Rules, laws and regulations and if there is a potential breach of fiduciary duties of the Board pursuant to section 157 of the Companies Act 1967.

2.7.2 The Shanghai Fengwei Matter

2.7.2.1 Based on our findings in section 2.6.2.4, there may be tax exposures for Shanghai Fengwei arising from the potential miscategorisation of the fees paid pursuant to the MSA. We recommend that the Company and Shanghai Fengwei consult its PRC legal counsel and tax advisors to determine the appropriate accounting treatment of the fees paid pursuant to the MSA, and any potential tax exposure. Further, as the legal advice obtained by the Company indicate that the MSA may not be legally binding pursuant to PRC law and it may be deemed to be void *ab initio*, we recommend that the Company and Shanghai Fengwei consult its PRC legal counsel to determine the enforceability of the MSA and the recoverability of the funds paid pursuant to the MSA, in the event it is voided.

2.7.2.2 Further, our findings in section 2.6.2.4 appear to contradict the Company's announcement dated 28 October 2020, and accordingly, the Company is potentially in breach of Listing Rule 703(4) read with paragraph 25(a) of Appendix 7.1 and Section 330(1) of the Securities and Futures Act 2001.

2.7.3 Lack of internal controls during the Matters

2.7.3.1 As described at section 2.5.5.1, we did not identify formal policies and procedures at a Company level in relation to the Thai GNCC Matter. Further, we did not identify formal policies and procedures maintained by the Company's subsidiaries involved in the Matters (i.e., Top Post, Baling and Shanghai Fengwei), including required Board consideration and approvals prior to entering transactions similar to the MA and the MSA. Accordingly, the Company is potentially in breach of Rule 719(1) of the Listing Manual

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by failing to maintain an adequate and effective internal control and risk management systems.

2.7.3.2 On 21 March 2023, the Company provided us a status update on its Group and subsidiary level internal controls. An approval matrix was developed and effective since 30 April 2021, outlining the specific approval thresholds for each subject matter, depending on the decision type and/or financial quantum (the **"Approval Matrix"**). The Approval Matrix covers five categories of matters with delegated authorities:

- Organisation and management, including investment and divestment plans, declaration of dividends, issuance of new shares, IPTs, and guarantees and indemnities.
- Accounting and finance, including payment approval limits, accounting adjustments and asset impairments/write offs.
- Procurement, including approval matrices for capital expenditures.
- Sales and marketing, including customer credit terms and limits and sales discounts.
- Human resources management, including salary adjustment and bonus and overtime.

2.7.3.3 On 28 March 2023, the Company provided the findings of an internal audit performed by TRS on Shanghai Fengwei dated 26 August 2021. The internal audit on Shanghai Fengwei was performed on four areas: sales to collection, bank and cash management, production management and fixed asset and inventory management. In its findings, TRS stated that policies and procedures for these four areas had yet to be established. Minutes of an AC meeting on 26 August 2021 records, with respect to the above findings, states: "*Management has agreed to put into place the necessary action plans to address the risks*."

2.8 Limitations and use of our report

2.8.1 Our report is prepared solely for the use of the Company and SGXRegCo under the terms of the Engagement Letter, and should not be used, quoted or referred to, in whole or in part, for any other purpose or to be made available to any other party without our prior written consent, save as required by law, regulation or any governmental or competent regulatory authority. We do not assume responsibility for loss and expressly disclaim any liability to any party whatsoever, however arising, from the use of this report other than for the purposes as set out in the Engagement Letter.

2.8.2 Our work does not constitute an audit, review or assurance engagement under the *Singapore Standards on Auditing*, *Singapore Standards on Review Engagements* or *Singapore Standards on Assurance Engagements*. Consequently, no opinion or assurance will be expressed under such standards. Unless it is part of our scope, we will not provide an opinion on the nature of any issues identified in the course of our work.

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2.8.3 The observations in our report are based on the information made available to us in the course of our work. Except where expressly stated, the information has not been independently verified, and reliance has been placed on the integrity, accuracy and completeness of the information therein.

2.8.4 The observations set out in our report is based on our understanding of the relevant laws, regulations and guidelines applicable at the time of the engagement and should not be construed as legal advice.

2.8.5 Where an original document is in a non-English language, we have attempted to provide an accurate English translation. However, this is an unofficial translation provided for reference only.

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