Regulatory Announcement

1 December 2023

SGX RegCo says the actions of New Silkroutes former directors and executive officers led to circumvention of rules

Singapore Exchange Regulation ("SGX RegCo") refers to New Silkroutes Group Limited's (the "Company", or together with its subsidiaries, the "Group") announcement on 1 December 2023 in relation to the findings reported by the independent reviewer, KPMG Services Pte Ltd ("KPMG"). KPMG, who reported directly to SGX RegCo and the Company's audit committee, was appointed to review certain transactions highlighted by the Company's statutory auditor during its review of the Group's financial statements for the year ended 30 June 2020.

KPMG's Findings

Thai GNCC Transactions

In May 2011, the Company signed a sale and purchase agreement with Tianjin General Nice Coke & Chemicals Co., Ltd ("Tianjin GNCC") to buy 15% equity interest in Thai General Nice Coal and Coke Co., Ltd ("Thai GNCC"). After six extensions of the completion date and two amendments to reduce the Company's acquisition stake to 2.82%, the acquisition was finally completed in May 2017. The Company paid a total of US$ 14.09 million for the 2.82% equity interest in Thai GNCC. However, Thai GNCC has not commenced commercial operations since 2011. The Group eventually deconsolidated its investment in Thai GNCC in 2021.

The acquisition of Thai GNCC was funded by the Group's fund-raising exercises, namely a placement of 16.67% of the enlarged share capital to two investors in 2011 and a rights issue in 2012. In both fund-raising exercises, the Company confirmed to SGX RegCo that the two investors, Fortune Woods Global Investment Limited ("Fortune Woods") and Smartful Global Holdings Ltd ("Smartful"), were unrelated and not acting in concert. Fortune Woods and Smartful were respectively owned by Mr. Cai Sui Xin and Mr. Xiao De.

For the placement exercise in 2011, the Company further confirmed to SGX RegCo that the two investors had no connection (including any business relationship) directly or indirectly with each other, and that they would not have any board or management representation as a result of the placement.

Contrary to the confirmations, KPMG found that Mr. Cai and Mr. Xiao had an existing business relationship with each other through Tianjin GNCC prior to the placement. Mr. Xiao was a director of Tianjin GNCC's sole shareholder since 2004, while Mr. Cai was the legal representative of Tianjin GNCC since 1994 and his sister was the director of Tianjin GNCC between 1994 and 2015. In fact, the Company knew that the intended investor for the placement was Mr. Cai. The placement to Fortune Woods and Smartful was structured such that neither of them would hold a controlling interest in the Company so that shareholders' approval would not be required. Their collective stake would however be equivalent to a controlling interest of 16.67%.

In addition, the Company was also aware of Mr. Cai's request to control the board upon completion of the placement and facilitated the sequence of appointments that was calculated to achieve this without attracting regulatory attention. This was notwithstanding that the Company had provided a written confirmation to SGX ReCo that Fortune Woods and Smartful would not have any board or management representation as a result of the placement.

Following the completion of the placement in February 2011, individuals acquainted with Mr. Cai were employed by the Company or appointed to the Company's Board. They were namely, Mr. Desmond Yong (as the business advisor to the Company in February 2011, who introduced Thai GNCC to the Company following his appointment), Mr. Ted Wong Tat Hei (as Independent Director on 1 June 2011, who was the Company's consultant to the placement prior to his appointment), Mr. Frank Yu (as Independent Director on 1 March 2012) and Mr. Jaffe Lau Yu (as Executive Director and Vice-Chairman on 20 July 2012). Mr. Cai himself was appointed as the Executive Chairman of the Company on 20 July 2012.

If not for the Company's false confirmations to SGX RegCo on the investors' relationship and board representation, the placement would have constituted a transfer of controlling interest and prior shareholders' approval would have been required pursuant to Listing Rule 803. The false confirmations provided to SGX RegCo are potential contravention of Section 330 of the Securities and Futures Act.

Top Post and Baling Transactions

Mr. Cai, Mr. Frank Yu and Mr. Jaffe Lau, in their capacities as the directors of the Company, entered into various agreements to purchase goods and services which were not delivered.

In December 2012, Top Post Enterprises Limited ("Top Post") was incorporated as a wholly-owned subsidiary of the Company. In 2016, Top Post subscribed for 99.97% shares in Baling (China) Investment Limited ("Baling") at HK$35 million. KPMG's report stated that Baling was in fact a dormant company at the material time and the share subscription in Baling (the "Baling Subscription") was initiated by Mr. Jaffe Lau. No formal due diligence was performed by the Company for the Baling Subscription. After the completion of the Baling Subscription, the directors of Top Post and Baling were Mr. Cai and Mr. Jaffe Lau, and the authorized bank signatories of these subsidiaries were Mr. Cai., Mr. Jaffe Lau and Mr. Frank Yu. Although the Company was Top Post's sole shareholder, Top Post and Baling were

effectively controlled by Mr. Cai, Mr. Jaffe Lau and Mr. Frank Yu, and the Company had no access to the subsidiaries' bank accounts.

Despite being dormant companies, Top Post and Baling entered into various agreements to purchase iron ore fines and procure consultancy services worth US$4.99 million between February 2016 and March 2016. KPMG did not find any evidence that the iron ore fines were delivered or consultancy services being rendered. KPMG also could not identify the shareholders and directors of the iron ore fines vendor and the consultancy provider.

Mr. Jaffe Lau and Mr. Frank Yu resigned from the Company on 31 October 2016, while Mr. Cai stepped down on 8 December 2016. These directors may not have properly discharged their fiduciary duties pursuant to Section 157 of the Companies Act in their management of Top Post and Baling.

SGX RegCo's Next Step

SGX RegCo does not condone actions by the issuers and directors to circumvent the requirements under the Listing Rules and will be investigating into the potential breaches pertaining to the placement and the acquisition of Thai GNCC.

SGX RegCo will refer the potential contravention of the Companies Act and Securities and Futures Act highlighted in the KPMG Report to the relevant authorities.

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About Singapore Exchange Regulation (SGX RegCo)

Singapore Exchange Regulation (SGX RegCo) is the independent Singapore Exchange subsidiary undertaking all frontline regulatory functions including as securities market regulator. Our activities include the admission and supervision of issuers, intermediaries and Catalist sponsors, the surveillance of trading and issuers' disclosures, and the formulation and improvement of policies and products, guided by market feedback. We also have the Whistleblowing Office to look into allegations of issuers' regulatory shortfalls and the Sustainable Development Office to house ESG-related regulatory efforts. Regulation Asia has named us Exchange of the Year four times in recognition of efforts to uphold the integrity and development of our markets. Find out more at https://www.sgx.com/regulation.

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