NEW SILKROUTES GROUP LIMITED

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

RESPONSE TO SGX QUERIES ON COMPANY’S FINANCIAL STATEMENTS FOR THE 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 financial statements for the financial year ended 30 June 2021 (the “**Financial Statements**”) released via SGXNET on 27 August 2021.

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

SGX-ST’s Query:

*(a) Please disclose a breakdown of other operating expenses amounting to US$7,139,000 and US$14,218,000 for the 12 months ended 30 June 2021 (“**FY2021**”) and 30 June 2020 (“**FY2020**”) respectively, and explain the decrease in operating expenses from FY2020 to FY2021.*

Company’s Response:

Breakdown of other operating expenses from continuing operations:	**FY2021**	**FY2020**
	US$’000	**US$’000**
Consultancy and marketing fees	3,990	7,683
Impairment loss recognised on trade and other receivables	537	1,192
Impairment loss on intangible assets	-	1,004
Net present value change of the call and put option liability	858	1,281
Legal, professional fees, other consultancy fees and other charges	1,331	681
Others*	423	2,377
Total	**7,139**	**14,218**

*Others mainly comprise net foreign exchange (gain)/loss, bank charges, advertising expenses, transportation, repair and maintenance expenses on plant and equipment etc.

The decrease in operating expenses mainly contributed by –

(a) the expiry of management service agreement in December 2020 in relation to the consultancy and marketing services;

(b) lesser impairment loss recognised on trade and other receivables, and intangible assets;

(c) lesser impact on net present value change of the call and put option liability; and

(d) lesser repair and maintenance expenses on plant and equipment incurred during the year.

SGX-ST's Query:

(b) It is disclosed on page 30 of the Financial Statements that, inventories increased to US$2.43 million as at 30 June 2021 from US$1.91 million in the last financial year mainly due to a stock up for non-woven materials in the healthcare and healthcare consumables segment. Please explain why inventories have increased despite a decline in demand for non-woven material as a result of heightened competition as China's economy began to recover from the Covid-19 pandemic.

Company's Response:

The increase in inventories by US$0.52 million mainly due to the prices of non-woven materials were expected to be a spike after Chinese New Year (i.e. February 2021). The Management had purchased at a lower cost during the financial year to avoid the price spike. These raw materials are essential for the production and manufacturing of healthcare consumables.

SGX-ST's Query:

(c) Please disclose the trade receivables turnover days for the Group's continuing operations for the year ended 30 June 2020 and 30 June 2021 respectively. Please explain any material changes in trade receivables turnover days.

Company's Response:

The trade receivables turnover days for the Group's continuing operations for the year 30 June 2020 and 30 June 2021 are 39 days and 47 days, respectively. The turnover days had increased by 8 days mainly due to slightly delay in receiving payment from customers during the Covid-19 pandemic.

SGX-ST's Query:

(d) Please provide further information on the Group's consideration payables and explain the increase in consideration payables from FY2020 to FY2021.

Company's Response:

Consideration payables comprise:

(a) An estimated amount of US$5.74 million in FY2021 (FY2020: US$4.88 million) being the net present value of the call and put option due to the acquisition of medical clinics in 2019. The call and put option will expire at the end of the fifth anniversary in 2023. The increase of US$0.86 million resulting from the discount rate adopted in FY2021, shorter period and foreign currency translation.

(b) An amount of US$1.51 million in FY2021 (FY2020: US$1.41 million) being the payable to a shareholder due to the acquisition of Shanghai Fengwei in 2019. The slight increase was resulting from the effect of the foreign currency translation.

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

(e) *It is noted that a fair value loss on financial assets at fair value through profit or loss of US$21,079,000 has been recognised for the 12 months ended 30 June 2021. Please explain how the amount of US$21,079,000 was arrived at.*

<u>Company's Response:</u>

On the loss of control of International Energy Group Pte. Ltd. ("**IEG**"), the assets and liabilities of IEG are derecognised. The retained interest (measured at fair value) are recognised. Any resulting gain or loss is recognised in profit or loss. The US$21.1 million was assessed based on the changes of fair values of assets and liabilities of IEG and recorded as a fair value loss on financial assets at fair value through profit or loss.

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

(f) *Please disclose:*

(i) *the nature of the non-current receivables; and*

<u>Company's Response:</u>

It relates to the long-term prepaid repair and maintenance services.

(ii) *the Board's assessment of the recoverability of the non-current receivables.*

<u>Company's Response:</u>

The Management has assessed that the non-current receivables should be recoverable through utilisation of the related services until the expiry of the terms.

The Board has assessed that the non-current receivables should be recoverable through either payment by the customers or offset against the outstanding amounts owing by the Group to the customers, as it continues business transactions with the customers, after taking into consideration management's discussions and action plan. The credit exposure is continuously monitored and assessed by the management and the Board.

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

(g) *Given the Group's significant current liabilities of US$17,754,000 and cash and bank balance of only US$6,609,000, please disclose the Board's assessment on (i) whether the Company's current assets are adequate to meet the Company's short term liabilities of US$17,754,000, including its bases of assessment; and (ii) how the Company intends to fulfil its significant payment obligations in the next 12 months. Where the Company has worked out debt repayment plans to fulfil its debt obligations, please disclose if the Company is on track to fulfilling these obligations.*

(i) *whether the Company's current assets are adequate to meet the Company's short term liabilities of US$17,754,000, including its bases of assessment;*

<u>Company's Response:</u>

The Management and Board of Directors are of the view that the Company's current assets are adequate to meet the Company's short term liabilities after considering the following:

(a) The Group contributed US$42.04 million to the revenue for the financial year ended 30 June 2021. The Group can continue to grow its healthcare operations based on the financials from its operating subsidiaries.

(b) The Group's current liabilities comprised the guaranteed profit of US$3.02 million (S$4.00 million) was received by the Company which is accounted as an advance receipt under other payables in the statement of financial position and does not constitute an actual cash or payable obligation on the Group.

(c) As at the reporting period end, the Group has undrawn borrowings facilities of US$0.76 million that is available.

The Directors are of the opinion that the above considerations would allow the Group to generate sufficient cash flows from its operations and meet its obligations as and when they fall due.

(ii) how the Company intends to fulfil its significant payment obligations in the next 12 months. Where the Company has worked out debt repayment plans to fulfil its debt obligations, please disclose if the Company is on track to fulfilling these obligations.

<u>Company's Response:</u>

After reviewing the financial forecast and cashflow projections, the Board of Directors is in the opinion that the Company and the Group can continue as a going concern and have sufficient working capital and financial resources to meet their obligations as and when they fall due for the next twelve months 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 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 discussions and negotiations with the provisional liquidators.

(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 Iolani Shipping Limited ("**Iolani**") 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 discussions and negotiations with the counterparty.

(d) 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$7.36 million to the revenue of 4Q21. The Group can continue to grow its healthcare operations based on the financials from its operating subsidiaries.

(e) 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^{TM} and look forward to converting this to a PaaS cloud computing model. GEIA^{TM} 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.

(f) 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.

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

13 September 2021