

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NEW SILKROUTES GROUP LIMITED

Report on the Audit of the Financial Statements

Disclaimer of Opinion

We were engaged to audit the accompanying financial statements of New Silkroutes Group Limited (the "Company") and its subsidiaries (the "Group") as set out on pages 53 to 130, which comprise the statements of financial position of the Group and the Company as at 30 June 2021, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group and the statement of changes in equity of the Company for the financial year then ended, and notes to the financial statements, including a summary of significant accounting policies.

We do not express an opinion on the accompanying consolidated financial statements. Because of the significance of the matters described in the *Basis for Disclaimer of Opinion* section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

Basis for Disclaimer of Opinion

1. Going concern assumptions

As disclosed in Note 3 to the financial statements, the Group and the Company incurred loss for the year of US\$18,099,000 and of US\$27,877,000 respectively for the financial year ended 30 June 2021. As at 30 June 2021, the Group's and the Company's current liabilities exceeded the current assets by US\$3,621,000 and US\$5,967,000 respectively.

In addition, as disclosed in Notes 28 and 37 to the financial statements, the Group and the Company are exposed to certain material uncertainties in relation to contingent liabilities and guarantees provided that could result in material financial obligations in the future periods. The Group also breached a non-financial covenant for a loan from a financial institution amounting to US\$3,631,000.

These factors indicate the existence of material uncertainties which may cast significant doubt about the ability of the Group and the Company to continue as going concerns.

Nevertheless, in the preparation of the financial statements, the Board of Directors believes that the use of going concern assumption is appropriate after taking into consideration of the factors as disclosed in Note 3 to the financial statements.

The ability of the Group and the Company to remain as going concerns are therefore dependent on the assumptions, which are premised on future events and market conditions, the outcomes of which are inherently uncertain.

We were unable to obtain sufficient appropriate audit evidence to conclude on the appropriateness of the use of the going concern assumption for the preparation of the accompanying financial statements and whether any adjustments might be necessary in respect of the accompanying financial statements.

If the Group and the Company are unable to continue in operational existence for the foreseeable future, the Group and the Company may be unable to discharge their liabilities in the normal course of business. Adjustments may have to be made to reflect the situation that assets may need to be realised other than in the normal course of business and at amounts which could differ significantly from the amounts at which they are currently recorded in the statements of financial position. In addition, the Group and the Company may have to provide for further liabilities that might arise, and to reclassify non-current assets and liabilities as current assets and liabilities. No such adjustments have been made to the financial statements.

2. Management Agreement and Management Service Agreement (Note 30)

On 18 April 2020, the Company and its wholly-owned subsidiary in the People's Republic of China, Shanghai Fengwei Garment Accessory Co., Ltd. ("Shanghai Fengwei"), entered into two agreements with a non-related company (the "Entity") incorporated on 22 April 2020 in the People's Republic of China, later than the signing date of the above agreements.

(a) Management agreement with the Entity, Shanghai Fengwei and the Company ("Management Agreement")

According to the Management Agreement, the Entity would manage and expand the business of Shanghai Fengwei and the Group would receive upfront a guaranteed profit of S\$4,000,000 (approximate US\$2,828,000) for the period from 1 January 2020 to 31 December 2021. The advance receipt of profit guarantee of S\$4,000,000 was received by the Company on 21 May 2020 through a Singapore incorporated company, WTL Capital Holdings Pte Ltd, who is also a shareholder of the Company.

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Report on the Audit of the Financial Statements (cont'd)

Basis for Disclaimer of Opinion (cont'd)

2. Management Agreement and Management Service Agreement (Note 30) (cont'd)

- (a) Management agreement with the Entity, Shanghai Fengwei and the Company ("Management Agreement") (cont'd)

In addition, the Company would assign the management rights and the profits of Shanghai Fengwei during the period from 1 January 2020 to 31 December 2021 to the Entity. All post-tax profits or losses during the aforesaid period, whether in excess of or less than the advance receipt of profit guarantee, shall be attributable to or borne by the Entity. In return, the Entity would retain the net profit or loss after tax generated by Shanghai Fengwei for 2020 and 2021.

During the financial year ended 30 June 2020, the Group and the Company recognised consultancy and marketing fee expense of US\$1,268,000 in other operating expenses. As at 30 June 2020, included in other payables of the Group and Company were advance receipt of profit guarantee of US\$2,828,000 and consultancy and marketing fee payable to the Entity in relation to the assignment of profits of Shanghai Fengwei from 1 January 2020 to 30 June 2020 of US\$1,268,000.

During the financial year ended 30 June 2021, the consultancy and marketing fee payable of US\$1,268,000 brought forward from the previous financial year was written back to current year profit or loss of the Group and the Company as the actual profit of Shanghai Fengwei for the period from 1 January 2020 to 30 June 2021 is lower than the guaranteed profit.

As at 30 June 2021, included in other payables of the Group and Company are advance receipt of profit guarantee of US\$3,024,000 and the consultancy and marketing fee payable to the Entity in relation to the assignment of profits of Shanghai Fengwei from 1 January 2020 to 30 June 2021 of US\$Nil.

- (b) Management Service Agreement with the Entity and Shanghai Fengwei ("Management Service Agreement")

According to the Management Service Agreement, Shanghai Fengwei would receive services, including human resource management, corporate image planning, production process management, marketing development and financial management during the period from 1 April 2020 to 31 December 2020. The management services agreement ended on 31 December 2020 and there is no further extension after the agreement expired.

The management service fee are charged by the Entity to Shanghai Fengwei on monthly basis. During the service period, Shanghai Fengwei's monthly profit after deduction of the management service fee should not be lower than the base profit of RMB1.1million (approximately US\$159,000). The base profit is based on the average of the actual monthly profit before tax (excluding non-operating income) of Shanghai Fengwei from January 2020 to March 2020. If Shanghai Fengwei's actual profit in its accounting book is less than the base profit, Entity will make up the shortfall to Shanghai Fengwei. If Shanghai Fengwei's actual profit is more than the base profit, the Entity will charge the excess as management service fee to Shanghai Fengwei.

During the financial year ended 30 June 2020, the Group recognised management service fee expense of US\$6,416,000 in other operating expenses. As at 30 June 2020, the unpaid management service fee of US\$3,217,000 remained in the other payables of the Group.

During the financial year ended 30 June 2021, the Group recognised management service fee expense of US\$3,444,000 in other operating expenses, being the management service fee charged by the Entity for the period from 1 July 2020 to 31 December 2020. The Group has made full payment of the outstanding management service fee of US\$6,661,000 to the Entity during the current financial year. In addition, the management service fee expenses were included as tax deductions in the calculation of income tax and the related input value added tax deducted with the output tax in the declaration of the value added tax during both the financial years ended 30 June 2020 and 30 June 2021.

As disclosed in Note 3 to the financial statements, the directors of the Company has assessed that the Group has control over Shanghai Fengwei and accordingly Shanghai Fengwei remains a subsidiary of the Group.

Total assets and total liabilities of Shanghai Fengwei included in the statement of financial position of the Group as at 30 June 2021 amounted to US\$22,101,000 (including goodwill on consolidation of US\$5,431,000) and US\$7,404,000 respectively. Revenue and net loss of Shanghai Fengwei included in the consolidated statement of comprehensive income of the Group for the financial year ended 30 June 2021 amounted to US\$28,992,000 and US\$66,000 respectively.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NEW SILKROUTES GROUP LIMITED

Report on the Audit of the Financial Statements (cont'd)

Basis for Disclaimer of Opinion (cont'd)

2. Management Agreement and Management Service Agreement (Note 30) (cont'd)

During the current financial year, the Company appointed an independent reviewer to carry out an independent review on the two above-mentioned agreements and as at the date of our report, the independent review report has not been finalised.

Based on information made available to us, we were unable to satisfy ourselves:

- i. the business rationale, commercial substance and structuring of the two above-mentioned agreements, the appropriateness of the corresponding accounting treatment and related presentation of the agreements in the financial statements, and whether (i) these were conducted in the normal course of business and (ii) the Group continues to have control over Shanghai Fengwei in accordance with SFRS(I) 10 Consolidated Financial Statements; and
- ii. in relation the Management Service Agreement, the business rationale and commercial substance regarding the management service fee charged by the Entity during the period from 1 July 2020 to 31 December 2020, and whether there are any potential tax exposures and impact of any non-compliance with regulatory and/or legal requirements arising from the transactions.

Consequently, we were unable to determine whether any adjustments to and/or disclosures in the accompanying financial statements might be necessary.

3. Investment in International Energy Group Pte. Ltd.

- (a) As disclosed in Note 9 to the financial statements, on 5 January 2021, the Company commenced the winding-up process of its wholly-owned indirect subsidiary, International Energy Group Pte. Ltd. ("IEG") by way of creditors' voluntary liquidation. The Group is deemed to have lost control of IEG and its subsidiaries and accordingly the Group deconsolidated their related assets and liabilities as of 5 January 2021, which included the financial asset measured at fair value through other comprehensive income ("FVTOCI") related to 4.534% equity interest in Thai General Nice Coal and Coke Co., Ltd ("Thai GNCC"). As a result, the Group recognised a loss amounting to US\$15,611,000 arising from deconsolidation of IEG, and reclassified the fair value reserve of US\$5,468,000 to accumulated losses. Subsequent to the deconsolidation, the investment in IEG is classified as financial asset at fair value through profit or loss ("FVTPL") and carried at US\$Nil on the consolidated statement of financial position.

During the current financial year, the Company appointed an independent reviewer to carry out independent review on the investment in Thai GNCC and as at date of our report; the independent review report has not been finalised.

We were unable to obtain sufficient appropriate audit evidence to assess the appropriateness of the valuation of the carrying amounts of assets and liabilities of IEG and its subsidiaries, including the financial asset at FVTOCI, as of the date of commencement of liquidation, and the resulting loss arising from deconsolidation of IEG. We were also unable to obtain sufficient appropriate audit evidence to assess the appropriateness of the valuation of financial asset at FVTPL at the reporting date.

- (b) As disclosed in Note 15 to the financial statements, the investment in IEG is held by a wholly-owned subsidiary of the Company, New Silkroutes Capital Pte. Ltd. ("NSC"). During the financial year, management performed an impairment assessment on the recoverability of the cost of investment in NSC and recognised an impairment loss of US\$24,764,000 to fully write down the cost of investment relating to IEG in the Company's financial statements.

We were unable to obtain sufficient appropriate audit evidence to assess the appropriateness of the impairment assessment in respect of the investment in NSC at the reporting date, and the related impairment loss of US\$24,764,000 recognised in the Company's profit or loss for the financial year ended 30 June 2021.

We were also unable to obtain sufficient appropriate audit evidence to determine whether the impairment loss recognised in the current financial year's profit or loss of the Company relates to any prior financial periods.

Consequently, we were unable to determine whether any adjustments to the accompanying financial statements might be necessary.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NEW SILKROUTES GROUP LIMITED

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Report on the Audit of the Financial Statements (cont'd)

Basis for Disclaimer of Opinion (cont'd)

4. Contingent liabilities and guarantees

As disclosed in Notes 28 and 37 to the financial statements, the Company provides guarantees to third parties for loan, lease financing arrangement and boat charter agreement for its former subsidiaries. No provision for any liability has been made by the Group and the Company in the accompanying financial statements.

Based on the information as provided by management, we were unable to determine whether any provision for liabilities might be required for these guarantees provided by the Company. Accordingly, we were unable to determine whether any adjustments to the accompanying financial statements might be necessary.

5. Opening balances

Another firm of independent auditors was engaged to audit the financial statements for the financial year ended 30 June 2020 whose report dated 14 October 2020 contained a disclaimer of opinion on those financial statements. The basis for disclaimer of opinion on the financial statements is disclosed in Note 41 to the financial statements.

In view of the matters described in the basis for disclaimer of opinion paragraphs on the financial statements for the financial year ended 30 June 2020, we were unable to determine whether the opening balances as at 1 July 2020 were fairly stated.

In addition, we were unable to perform audit procedures to obtain sufficient appropriate audit evidence about whether the Group's and Company's opening balances as at 1 July 2020 contain misstatements that materially affect the current year's financial statements.

Since opening balances as at 1 July 2020 entered into the determination of the financial performance, changes in equity and cash flows of the Group and changes in equity of the Company for the financial year ended 30 June 2021, as well as affect how the balances presented in the Group's and Company's statements of financial position as at 30 June 2021 were derived, we were unable to determine whether adjustments might have been found necessary in respect of the Group's and the Company's financial statements for the financial year then ended.

Our report on the current financial year's financial statements of the Group and the Company is also modified because of the possible effects of these matters on the comparability of the current period's figures and the corresponding figures.

Other Matter

We draw attention to Note 40 to the financial statements which discloses that the Commercial Affairs Department ("CAD") and the Monetary Authority of Singapore (the "MAS"), pursuant to Section 20 of the Criminal Procedure Code (Chapter 68), have commenced an investigation into a possible offence of false trading and market rigging under Section 197 of the Securities and Futures Act (Chapter 289) of Singapore in relation to share buy-backs and acquisition of shares. As of the date of this report, the investigations are still ongoing.

The financial statements of the Group for the year ended 30 June 2020 were audited by another auditor who expressed a disclaimer opinion on those financial statements on 14 October 2020 as described in Note 41 to the financial statements.

Responsibilities of Management and Directors for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Companies Act, Chapter 50 (the "Act") and Singapore Financial Reporting Standards (International) and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair financial statements and to maintain accountability of assets.

In preparing the financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The directors' responsibilities include overseeing the Group's financial reporting process.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NEW SILKROUTES GROUP LIMITED

Report on the Audit of the Financial Statements (cont'd)

Auditor's Responsibilities for the Audit of the Financial Statements

Our responsibility is to conduct an audit of the accompanying financial statements in accordance with Singapore Standards on Auditing and to issue an independent auditor's report. However, because of the matters described in the *Basis for Disclaimer of Opinion* section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

We are independent of the Group in accordance with the Accounting and Corporate Regulatory Authority (ACRA) *Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities* (ACRA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Singapore, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the ACRA Code.

Report on other legal and regulatory requirements

In our opinion, except for the matters described in the *Basis for Disclaimer of Opinion* sections of our report, the accounting and other records required by the Act to be kept by the Company and by those subsidiary corporations incorporated in Singapore of which we are the auditors have been properly kept in accordance with the provisions of the Act.

The engagement partner on the audit resulting in this independent auditor's report is Khor Boon Hong.

Baker Tilly TFW LLP
Public Accountants and
Chartered Accountants
Singapore

13 October 2021

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2021

2 Summary of significant accounting policies (cont'd)

2.27 Discontinued operation (cont'd)

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative statement of comprehensive income is re-presented as if the operation had been discontinued from the start of the comparative year.

2.28 Contingent liability

A contingent liability is:

- a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group; or
- a present obligation that arises from past events but is not recognised because:
- it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or
- the amount of the obligation cannot be measured with sufficient reliability.

Contingent liabilities are not recognised on the statement of financial position of the Group, except liabilities assumed in a business combination that are present obligations and which the fair values can be reliably determined.

3 Critical accounting judgements and key sources of estimation uncertainty

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

Critical judgements in applying the entity's accounting policies

In the process of applying the Group's accounting policies, which are described in Note 2, management has made the following judgement that has the most significant effect on the amounts recognised in the financial statements.

Going concern assumption

During the financial year ended 30 June 2021, the Group reported a net loss of US\$18,099,000 (2020: US\$8,194,000) and the Company reported a net loss of US\$27,877,000 (2020: US\$3,973,000). The Group's and Company's current liabilities exceeded the current assets by US\$3,621,000 (2020: net current assets of US\$4,189,000) and US\$5,967,000 (2020: US\$2,361,000) respectively. These conditions indicate the existence of material uncertainties that may cast significant doubts about the Group's and the Company's abilities to continue as going concerns.

The Directors of the Company are of the view that the going concern assumption is appropriate for the preparation of these financial statements based on the following assessments.

- (i) The Group contributed US\$42,039,000 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.
- (ii) The Group's current liabilities comprised the guaranteed profit of US\$3,024,000 (US\$4,000,000) received by the Company and 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.
- (iii) As at the reporting period end, the Group has undrawn revolving credit facilities of US\$756,000.

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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2021

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3 Critical accounting judgements and key sources of estimation uncertainty (cont'd)

Critical judgements in applying the entity's accounting policies (cont'd)

Going concern assumption (cont'd)

For these reasons, the financial statements have been prepared on the assumptions that the Group and Company will continue as going concerns. The financial statements did not include any adjustments that may result in the event that the Group and Company are unable to continue as going concerns. In the event that the Group and Company are unable to continue in operational existence for the foreseeable future, the Group and Company may be unable to realise its assets and discharge its liabilities in the normal course of business and adjustments may have to be made to reflect the situation that assets may need to be realised other than in the normal course of business and at amounts which could differ significantly from the amounts at which they are currently recorded in the statements of financial position. In addition, the Group and Company may have to provide for further liabilities that might arise, and to reclassify non-current assets and liabilities as current assets and liabilities. No such adjustments have been made in the financial statements.

Control over Shanghai Fengwei

As disclosed in Note 30, pursuant to the Management Agreement, the Company assigned the management rights and the profits of Shanghai Fengwei during the period from 1 January 2020 to 31 December 2021 to the Entity. All post-tax profits or losses during the aforesaid period, whether in excess of or less than the Consideration, shall be attributable to or borne by the Entity. In return, the Entity would retain the net profit or loss after tax generated by Shanghai Fengwei for 2020 and 2021.

Total assets and total liabilities of Shanghai Fengwei included in the statement of financial position of the Group as at 30 June 2021 amounted to US\$22,101,000 (2020: US\$27,600,000) (including goodwill on consolidation of US\$5,431,000) and US\$7,404,000 (2020: US\$13,940,000) respectively. Revenue and net loss of Shanghai Fengwei included in the consolidated statement of comprehensive income of the Group for the financial year ended 30 June 2021 amounted to US\$28,992,000 (2020: US\$37,913,000) and US\$66,000 (2020: net profit: US\$2,318,000) respectively.

The directors of the Company made an assessment that Shanghai Fengwei's management continues to manage the operations and business activities of Shanghai Fengwei and that the Group has control over Shanghai Fengwei in accordance with the definition of control and the related guidance set out in SFRS(I) 10 Consolidated Financial Statements. Accordingly, Shanghai Fengwei remains a subsidiary of the Group.

Key sources of estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that has a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Impairment of trade and other receivables and contract assets

The Group has applied the simplified approach within SFRS(I) 9, based on lifetime ECL, in determining the loss allowance on trade receivables and contract assets at the end of each reporting period.

The Group determined the ECL of trade receivables and contract assets by categorising them based on days past due for groupings of various customer segments that have similar loss patterns. The ECL rates for each category of the debtors are estimated based on historical credit loss experience adjusted as appropriate to reflect current condition and forward-looking information which is based on assumptions and forecasts of future economic conditions with consideration of the impact of COVID-19 pandemic and how these conditions will affect the Group's ECL assessment as disclosed in Note 32(b).

As the calculation of loss allowance on trade receivables and contract assets is subject to assumptions and forecasts, any changes to these estimations will affect the amounts of loss allowance recognised and the carrying amounts of trade receivables and contract assets.

During the financial year, the loss allowance on trade receivables of US\$537,000 (2020: US\$1,192,000) was recognised in the Group's profit or loss. The carrying amounts of the Group's trade receivables and contract assets at the end of the reporting period are disclosed in Notes 17 and 20 to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2021

8 Taxation (cont'd)

The tax expense on the results of the financial year varies from the amount of income tax determined by applying the applicable rate of income tax on (losses)/profit as a result of the following:

	Group	
	2021	2020
	US\$'000	US\$'000
		(Restated)
Profit/(loss) before taxation from continuing operations	457	(2,147)
Loss before taxation from discontinued operation	(18,169)	(5,626)
	(17,712)	(7,773)
Tax at statutory rates applicable to different jurisdictions	(3,036)	(1,081)
Tax effect of expenses that are not deductible	3,780	1,131
Tax effect of income that is not taxable	(232)	(316)
Income tax rebates and incentives	(232)	(425)
Tax effect of unused tax losses not recognised as deferred tax assets	97	1,177
Utilisation of deferred tax assets on temporary differences previously not recognised	(2)	–
Deferred tax liabilities related to fair value adjustments on acquisition of subsidiaries	(88)	(164)
Changes in estimates of current taxation related to prior years	(63)	51
Changes in estimates of deferred taxation related to prior years	158	–
Withholding tax expense	7	–
Others	(2)	48
	387	421

9 Loss from discontinued operation

On 5 January 2021, the Company commenced the winding up process of its wholly owned indirect subsidiary, International Energy Group Pte. Ltd. ("IEG") by way of creditors' voluntary liquidation, which was previously reported in the oil and gas segment. In accordance with SFRS(I) 10, the Group has assessed that it has lost control of IEG upon the appointment of the liquidator. Accordingly, IEG and its subsidiaries were classified as discontinued operation of the Group and its assets and liabilities were deconsolidated from the Group. The comparative statements of comprehensive income are re-presented to show the discontinued operation separately from continuing operations.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2021

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9 Loss from discontinued operation (cont'd)

The aggregate effects of the loss of control over IEG on the cashflows of the Group were as follows:

	Note	Group 2021 US\$'000
Property, plant and equipment	12	6,333
Financial asset at fair value through other comprehensive income	16	17,192
Trade and other receivables		5,530
Cash and bank balances		1,000
Total assets		30,055
Borrowings		12,383
Trade and other payables		2,031
Tax payable		30
		14,444
Identified net assets derecognised		15,611
Fair value of the retained interest		—
Loss arising from loss of control over IEG		15,611
Consideration received in cash and cash equivalents		—
Less: cash and cash equivalents in IEG		(1,000)
Net cash outflow on loss of control over IEG		(1,000)

The analysis of the loss from discontinued operation are as follows:

	Group	
	2021 US\$'000	2020 US\$'000
Revenue	18,397	325,439
Other income	45	1,504
Purchases of finished goods	(19,145)	(321,778)
Changes in inventories of finished goods	(39)	3
Employee benefits expense	(324)	(940)
Depreciation of property, plant and equipment	(299)	(709)
Depreciation of right-of-use assets	(85)	(170)
Other operating expenses	(100)	(7,038)
Loss arising from loss of control over IEG	(15,611)	—
Finance costs	(1,008)	(1,937)
Loss before taxation	(18,169)	(5,626)
Taxation	12	36
Loss from discontinued operation, net of tax	(18,157)	(5,590)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2021

9 Loss from discontinued operation (cont'd)

The impact of the discontinued operation on the cash flows of the Group are as follows:

	Group	
	2021	2020
	US\$'000	US\$'000
Operating	(1,422)	(12,551)
Investing	(336)	(4)
Financing	(818)	12,197
Net cash outflows	(2,576)	(358)

The calculations of the basic and diluted loss per share from discontinued operation attributable to owners of the Company are as follows:

	Group	
	2021	2020
	US\$	US\$
Loss per share from discontinued operation attributable to owners of the Company (US cent)		
Basic and diluted	(8.71)	(2.68)

10 Loss for the year

Group	Continuing operations		Discontinued operation		Total	
	2021	2020	2021	2020	2021	2020
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Audit fees paid/payable to:						
- auditor of the Company	111	180	–	20	111	200
- other auditors	62	13	–	–	62	13
- under provision of audit fee in prior years	19	–	–	–	19	–
Non-audit fees paid/payable to:						
- auditor of the Company	–	15	–	–	–	15
- other auditors	–	–	–	–	–	–
Amortisation of intangible assets	106	274	–	–	106	274
Consultancy and marketing fee	(1,268)	1,268	–	–	(1,268)	1,268
Depreciation of property, plant and equipment	392	102	299	709	691	811
Depreciation of right-of-use assets	1,390	1,176	85	170	1,475	1,346
Loss arising from loss of control over subsidiaries	–	–	15,611	–	15,611	–
Management service fee	3,444	6,416	–	–	3,444	6,416
Impairment loss recognised on trade and other receivables	537	1,192	–	6,097	537	7,289
Impairment loss on intangible assets	–	1,004	–	–	–	1,004

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2021

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10 Loss for the year (cont'd)

Group	Continuing operations		Discontinued operation		Total	
	2021	2020	2021	2020	2021	2020
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Net fair value loss on derivative financial instruments	–	(1)	(2)	233	(2)	232
Net present value change of the call and put option liability	858	1,281	–	–	858	1,281
Legal, professional fees and other charges	1,007	451	59	507	1,066	958
Reversal of allowances for inventories written down	–	(254)	–	–	–	(254)

11 Loss per share

Basic loss per share is calculated based on the Group's loss for the year attributable to equity holders of the Company divided by the weighted average number of ordinary shares outstanding.

Group	Continuing operations		Discontinued operation		Total	
	2021	2020	2021	2020	2021	2020
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Net loss attributable to equity holders of the Company	(1,029)	(3,409)	(18,157)	(5,590)	(19,186)	(8,999)
Weighted average number of ordinary shares outstanding for basic and diluted earning per share	208,465	208,465	208,465	208,465	208,465	208,465
Basic and diluted earnings per share (cents per share)	(0.49)	(1.64)	(8.71)	(2.68)	(9.20)	(4.32)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2021

15 Subsidiaries

	Company	
	2021	2020
	US\$'000	US\$'000
Unquoted equity shares, at cost	47,210	46,836
Less: accumulated impairment losses	(26,164)	(400)
	21,046	46,436

Movement in the allowance for impairment loss in investment in subsidiaries is as follows:

	Company	
	2021	2020
	US\$'000	US\$'000
At beginning of financial year	400	400
Additional impairment loss	25,764	–
At end of financial year	26,164	400

During the financial year, an impairment loss of US\$25,764,000 (2020: US\$Nil) was recognised to fully write down the cost of investment in certain subsidiaries, which are either in process of liquidation or are dormant. Management assessed that the net recoverable amounts from these investments are US\$Nil respectively.

This includes impairment loss on New Silkroutes Capital Pte. Ltd. ("NSC"). The investment in IEG is held by NSC which in turn held by the Company. The management performed an impairment assessment on the recoverability of the investment amount in NSC and recognised an impairment loss of US\$24,764,000 in the Company's financial statements. The impairment loss of US\$24,764,000 was the cost of investment made by the Company in NSC, for the purpose of investment in IEG.

(i) Details of the Group's significant subsidiaries are as follows:

Name of company	Principal activities	Country of business/ incorporation	Equity holding	
			2021	2020
			%	%
<u>Held by the Company</u>				
New Silkroutes Capital Pte. Ltd. ⁽¹⁾	Investment holding	Singapore	100	100
<u>Held by New Silkroutes Capital Pte. Ltd.</u>				
International Energy Group Pte. Ltd. ⁽⁴⁾	Trading of petrochemical products	Singapore	–	100
New Silkroutes Group (Europe) Limited ⁽³⁾	Investment holding	Malta	100	100
Healthsciences International Pte. Ltd. ⁽¹⁾	Distributors of health supplements and Chinese proprietary medicine, providers of clinical management services, and healthsciences consultants	Singapore	81.28	81.28

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2021

23 Cash and bank balances

	Group		Company	
	2021	2020	2021	2020
	US\$'000	US\$'000	US\$'000	US\$'000
Cash on hand	46	54	2	4
Cash in bank	6,563	19,269	70	428
	6,609	19,323	72	432
Fixed deposits pledged	416	391	–	–
	7,025	19,714	72	432

At the end of the reporting period, the fixed deposits of US\$416,000 (2020: US\$391,000) for the Group were pledged to bank to secure bank loans (Note 28).

The fixed deposits has a weighted average maturity of 2.50 months (2020: 5.05 months) from the end of the reporting period with a weighted average effective interest rate of 0.1% (2020: 0.20%) per annum at the end of the reporting period.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise the following:

	Group	
	2021	2020
	US\$'000	US\$'000
Cash and bank balances and fixed deposits	7,025	19,714
Less: Cash restricted in use	(67)	(2,258)
Less: Fixed deposits pledged	(416)	(391)
	6,542	17,065

Cash restricted in use relates to funds held in designated bank accounts which are earmarked only for the purpose of letters of credit.

24 Financial asset at fair value through profit or loss

	Group	
	2021	2020
	US\$'000	US\$'000
Unquoted equity shares, at cost		
- International Energy Group Pte. Ltd ("IEG")	–	–

Investment in unquoted equity shares relate to the Group's investment in IEG which was previously accounted for as investment in subsidiary. With the commencement of liquidation process in 5 January 2021, the Group reclassified the investment to financial asset at fair value through profit or loss (Note 9).

The fair values of the investment is determined based on the net expected amounts to be realised through the sale of assets and repayment of obligations as assessed by the management as at end of reporting period.

Based on management assessment, the fair value of the investment as at 30 June 2021 is US\$Nil.

Unquoted equity shares are classified as Level 3 in the fair value hierarchy.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2021

28 Borrowings

	Group	
	2021	2020
	US\$'000	US\$'000
<u>Non-current</u>		
Loans from financial institutions ^(a)	1,540	9,610
Other borrowings ^(b)	–	5,296
	1,540	14,906
<u>Current</u>		
Loans from financial institutions	11,034	11,661
Other borrowings ^(b)	–	794
	11,034	12,455
	12,574	27,361

^(a) Included in the loans from financial institutions amounting to US\$6,800,000 in the previous financial year was a loan from OCAP Management Pte. Ltd. ("OCAP"). The loan was extended to IEG and the Company is the corporate guarantor of the loan. The loan was deconsolidated upon the commencement of liquidation process of IEG group in 5 January 2021.

During the financial year, the Company received a letter of demand in respect of principal of US\$6,800,000 and interest of US\$358,000 from the provisional liquidators of OCAP (Note 37).

^(b) In the previous financial year, TXZ Tankers Pte. Ltd. entered into financing arrangement whereby a vessel (Note 12) was secured by the Iolani Shipping Limited ("Iolani") for an amount of US\$6,500,000. An amount of US\$1,625,000 has been retained by the Iolani (Note 17) till maturity of the financing. Transaction costs of US\$272,000 has been capitalised as deferred financing costs which is amortised against the borrowing. The carrying value of the vessel under security charge as at 30 June 2020 is US\$6,227,000 (Note 12). The loan was deconsolidated upon the commencement of liquidation process of IEG group in 5 January 2021.

During the financial year, the Company, who was the guarantor of the financing arrangement, received a letter of demand from the counterparty in respect of US\$10,696,000 (Note 37).

As at 30 June 2021, the Group had available US\$Nil (2020: US\$2,828,000) and US\$756,000 (2020: US\$707,000) of undrawn borrowings facilities and revolving credit facility respectively. The amount of US\$2,828,000 was drawn down during the financial year ended 30 June 2021.

During the financial year, the Group breached a non-financial covenant for a loan from a financial institution amounting to US\$3,631,000. Accordingly, an amount of US\$2,452,000 of the above mentioned bank loan is reclassified as current. No further notice of default was presented to the Group.

In the prior financial year, the Group breached a non-financial covenant for a loan from a financial institution amounting to US\$3,619,000. The Group obtained a waiver from the financial institution for the breach of the non-financial covenant as at reporting date. Accordingly, an amount of US\$2,082,000 of the above mentioned bank loan remain classified as non-current. No further notice of default was presented to the Group.

In addition, the Group breached a financial covenant for a trade financing facility in the prior financial year. The facility was halted by the financial institution and the Group obtained a new facility to replace the above facility in the current financial year.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2021

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28 Borrowings (cont'd)

Terms and debt repayment schedule

	Currency	Nominal interest rate	Year of maturity	Carrying amount
Group				US\$'000
2021				
Loans from financial institutions				
- secured	SGD	2% to 10%	2022 to 2026	6,051
- secured	RMB	4.35% to 4.5%	2021 to 2022	6,523
				12,574
2020				
Loans from financial institutions				
- secured	SGD	2.45% to 12.88%	2021 to 2025	5,111
- secured	USD	8.25% to 12%	2020 to 2027	8,500
- secured	RMB	2.3% to 5%	2020 to 2021	7,660
				21,271
Other borrowings (secured)	USD	14.89%	2027	6,090
				27,361

Loans from financial institutions and other borrowings are secured by the following:

- fixed deposits of the Group;
- corporate guarantees by the Company and related parties;
- charges over shares of certain subsidiaries of the Company;
- personal guarantee(s) from a director of the Company and a former director of the Company and/or directors of subsidiaries;
- pledge over a director's land;
- fixed and floating charge on all assets and undertakings of a subsidiary; and/or
- certain property and equipment.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2021

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30 Trade and other payables

	Group		Company	
	2021	2020	2021	2020
	US\$'000	US\$'000	US\$'000	US\$'000
Trade payables from:				
Third parties	662	9,557	–	–
Subsidiaries	–	–	–	89
	662	9,557	–	89
Other payables from:				
- Subsidiaries	–	–	2,381	1,589
- Former related party	35	35	35	35
- Associate	–	5	–	–
- Accrued purchases	–	3,670	–	–
- Accrued operating expenses	1,183	765	180	191
- Accrued personnel expenses	401	176	183	50
- Deposit received	–	354	–	354
- Consideration payables	7,247	6,291	–	–
- Consultancy and marketing fee payable	–	1,268	–	1,268
- Advance receipt of profit guarantee	3,024	2,828	3,024	2,828
- Management service fee payable	–	3,217	–	–
- Other payables	998	2,736	714	91
	12,888	21,345	6,517	6,406
Total trade and other payables	13,550	30,902	6,517	6,495
Represented by:				
Current	7,815	26,025	6,517	6,495
Non-current	5,735	4,877	–	–
	13,550	30,902	6,517	6,495

Trade payables are non-interest bearing and are generally settled on 30 to 90 days (2020: 30 to 90 days) credit terms.

The non-trade amounts due to subsidiaries, and former related party, represent advances from and payments on behalf, are unsecured, interest-free and repayable on demand.

Consideration payables

Consideration payables includes an estimated amount of US\$5,735,000 (2020: US\$4,877,000) being the net present value of the put liability arising from the acquisition of medical clinics in 2019. The put liability relates to the put option held by the vendors to sell the non-controlling interests ("NCI") in the medical clinics to the Group and is measured based on a multiple of the future earnings of the medical clinics.

In conjunction with the acquisition, the vendor also granted a call option to the subsidiary to buy the remaining shares in the medical clinics at multiple of the future earnings of the medical clinics. The fair value of the call option is immaterial at 30 June 2021 and 2020.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2021

30 Trade and other payables (cont'd)

Consultancy and marketing fee payable, management service fee payable and advance receipt of profit guarantee

On 18 April 2020, the Company and its wholly-owned subsidiary in the People's Republic of China, Shanghai Fengwei Garment Accessory Co., Ltd. ("Shanghai Fengwei"), entered into two agreements with a non-related company (the "Entity") incorporated on 22 April 2020 in the People's Republic of China, later than the signing date of the above agreements.

Management agreement with the Entity, Shanghai Fengwei and the Company ("Management Agreement")

According to the Management Agreement, the Entity would manage and expand the business of Shanghai Fengwei and the Group would receive upfront a guaranteed profit of US\$2,828,000 (S\$4,000,000) for the period from 1 January 2020 to 31 December 2021. The advance receipt of profit guarantee of S\$4,000,000 was received by the Company on 21 May 2020 through a Singapore incorporated company, WTL Capital Holdings Pte Ltd, who is also a shareholder of the Company.

In addition, the Company would assign the management rights and the profits of Shanghai Fengwei during the period from 1 January 2020 to 31 December 2021 to the Entity. All post-tax profits or losses during the aforesaid period, whether in excess of or less than the advance receipt of profit guarantee, shall be attributable to or borne by the Entity. In return, the Entity would retain the net profit or loss after tax generated by Shanghai Fengwei for 2020 and 2021.

During the financial year ended 30 June 2020, the Group and the Company recognised consultancy and marketing fee expense of US\$1,268,000 in other operating expenses. As at 30 June 2020, included in other payables of the Group and Company were advance receipt of profit guarantee of US\$2,828,000 and consultancy and marketing fee payable to the Entity in relation to the assignment of profits of Shanghai Fengwei from 1 January 2020 to 30 June 2020 of US\$1,268,000.

During the financial year ended 30 June 2021, the consultancy and marketing fee payable of US\$1,268,000 brought forward from the previous financial year was written back to current year profit or loss of the Group and the Company as the actual profit of Shanghai Fengwei for the period from 1 January 2020 to 30 June 2021 is lower than the guaranteed profit.

As at 30 June 2021, included in other payables of the Group and Company are advance receipt of profit guarantee of US\$3,024,000 the consultancy and marketing fee payable to the Entity in relation to the assignment of profits of Shanghai Fengwei from 1 January 2020 to 30 June 2021 of US\$Nil.

Management Service Agreement with the Entity and Shanghai Fengwei ("Management Service Agreement")

According to the Management Service Agreement, Shanghai Fengwei would receive services, including human resource management, corporate image planning, production process management, marketing development and financial management during the period from 1 April 2020 to 31 December 2020. The management services agreement ended on 31 December 2020 and there is no further extension after the agreement expired.

The management service fee are charged by the Entity to Shanghai Fengwei on monthly basis. During the service period, Shanghai Fengwei's monthly profit after deduction of the management service fee should not be lower than the base profit of RMB1.1million (approximately US\$159,000). The base profit is based on the average of the actual monthly profit before tax (excluding non-operating income) of Shanghai Fengwei from January 2020 to March 2020. If Shanghai Fengwei's actual profit in its accounting book is less than the base profit, Entity will make up the shortfall to Shanghai Fengwei. If Shanghai Fengwei's actual profit is more than the base profit, the Entity will charge the excess as management service fee to Shanghai Fengwei.

During the financial year ended 30 June 2020, the Group recognised management service fee expense of US\$6,416,000 in other operating expenses. As at 30 June 2020, the unpaid management service fee of US\$3,217,000 was remained in the other payables of the Group.

During the financial year ended 30 June 2021, the Group recognised management service fee expense of US\$3,444,000 in other operating expenses, being the management service fee charged by the Entity for the period from 1 July 2020 to 31 December 2020. The Group has made full payment of the outstanding management service fee of US\$6,661,000 to the Entity during the current financial year. In addition, the management service fee were included as tax deductions in the calculation of income tax and the related input value added tax deducted with the output tax in the declaration of the value added tax during both the financial years ended 30 June 2020 and 30 June 2021.

During the current financial year, the Company appointed an independent reviewer to carry out an independent review on the two above-mentioned arrangement and as at the date of our report, the independent review report has not been finalised.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2021

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36 Commitments

Capital commitments

Capital expenditure contracted for as at the end of the reporting period but not recognised in the financial statements are as follows:

	2021	2020
	US\$'000	US\$'000
Group and Company		
Capital commitment in respect of intangible assets	125	–

Operating lease arrangements

	2021	2020
	US\$'000	US\$'000
Group		
<u>Dry Docking</u>		
Estimated dry docking commitment	–	1,000

Sale and purchase commitments

	2021	2020
	US\$'000	US\$'000
Group		
<u>Dry Docking</u>		
Sale of oil products	–	18,422
Purchases of oil products	–	(16,986)

37 Contingent liabilities

Guarantees

The Company has provided corporate guarantees of US\$2,639,000 (2020: US\$12,911,000) to banks borrowings of US\$1,906,000 (2020: US\$16,484,000) drawn down by its subsidiaries at the end of reporting date (Note 28).

Legal claim

- The Company alleged to be the corporate guarantor for a loan (Note 28) extended by OCAP Management Pte. Ltd. ("OCAP") to IEG. On 8 January 2021, the Company received a letter of demand from the provisional liquidators of OCAP for the sum of US\$7,158,000 (principal of US\$6,800,000 and interest of US\$358,000) plus accrued interest which will continue to accrue in accordance with the terms of loan agreement in respect of the loan facilities extended to IEG.
- The Company is alleged to be a corporate guarantor to a lease financing arrangement of the bare boat charter agreement entered into by its subsidiary, TXZ Tankers Pte Ltd with Iolani Shipping Limited ("Iolani"). On 7 June 2021, the Company received a letter of demand Iolani for an alleged sum of US\$10,696,000 plus any interest which is alleged to continue to accrue in accordance with the terms of the NSG Guarantee. The Company also received a reservation of right in respect of the boat charter agreement.

The Company has sought legal advice from its lawyers. No provision for any liability in connection with the claims has been made in these financial statements. The management is in active discussion with OCAP and Iolani to reach an amicable conclusion.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2021

39 Equity-settled share-based payment transactions

Performance Share Plan

The New Silkroutes Performance Share Plan 2017 (the "NSPSP") was approved by the shareholders during the Extraordinary General Meeting on 21 July 2017. The NSPSP contemplates the awarding of fully paid-up shares, free of payment, to selected employees of the Company and its subsidiaries, including executive directors of the Company.

The total number of new ordinary shares in the Company which may be issued in all awards granted under the NSPSP shall not exceed 15% of the number of issued shares (excluding treasury shares and subsidiary holdings) in the capital of the Company from time to time. The Company does not have any subsidiary holdings.

No awards have been granted to directors, controlling shareholders of the Company or their associates and no directors or employees of the Company have received 5% or more of the total awards available under the NSPSP.

No awards have been granted under the NSPSP since the commencement of the NSPSP and during the financial year. At the end of the financial year, there were no outstanding awards or unissued shares of the Company under the NSPSP.

The NSPSP is subject to a maximum period of ten years, and will expire on 20 July 2027.

40 Significant event

In the previous financial year, the Commercial Affairs Department ("CAD") and the Monetary Authority of Singapore (the "MAS") pursuant to Section 20 of the Criminal Procedure Code (Chapter 68) have commenced an investigation into a possible offence of false trading and market rigging under section 197 of the Securities and Futures Act (Chapter 289) of Singapore in relation to share buy-backs and acquisition of shares. One of the former Directors of the Company and certain former senior management and management were also assisting the CAD in the said investigation. At date of authorisation of these financial statements, the CAD's investigation is still ongoing. The Board of Directors and management have assessed that this is not expected to have significant impact on the financial statements.

41 Basis for disclaimer opinion on the financial statements for the financial year ended 30 June 2020

The independent auditor's report dated 14 October 2020 contained a disclaimer of opinion on the financial statements for the financial year ended 30 June 2020. The extract of the basis for disclaimer of opinion, which should be read in conjunction with the Group's 2020 Annual Report as all figures and references are in respect of the financial statements for the financial year ended 30 June 2020, is as follows:

Disclaimer of Opinion

The former auditor did not express an opinion on the accompanying consolidated financial statements of the Group and the statement of financial position and statement of changes in equity of the Company. Because of the significance of the matters described in the *Basis for Disclaimer of Opinion* section of their report, the former auditor has not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

(a) Management service agreement and management agreement (Note 19)

On 18 April 2020, the Company and its wholly-owned subsidiary in the People's Republic of China, Shanghai Fengwei Garment Accessory Co., Ltd. ("Shanghai Fengwei"), entered into two agreements with a company incorporated on 22 April 2020 in the People's Republic of China ("Entity").

(a) Management Service Agreement (between Shanghai Fengwei and the Entity)

Pursuant to the Management Service Agreement, Shanghai Fengwei will receive services, including human resource management, corporate image planning, production process management, marketing development and financial management during the period from 1 April 2020 to 31 December 2020 from the Entity.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2021

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41 Basis for disclaimer opinion on the financial statements for the financial year ended 30 June 2020 (cont'd)

Disclaimer of Opinion (cont'd)

(a) Management service agreement and management agreement (Note 19) (cont'd)

(a) Management Service Agreement (between Shanghai Fengwei and the Entity) (cont'd)

The management service fee are charged to Shanghai Fengwei on a monthly basis. In accordance with the terms of the Management Service Agreement, during the service period, Shanghai Fengwei's profit after deduction of the management service fee should not be lower than the base profit. The base profit was determined based on the average monthly profit before tax (excluding non-operating income) of Shanghai Fengwei during January 2020 to March 2020. If Shanghai Fengwei's actual profit is less than the base profit, the Entity will make up the shortfall to Shanghai Fengwei.

During the period from 1 April 2020 to 30 June 2020, management service fee of US\$6,415,689 (Note 10) was recorded as other operating expenses by Shanghai Fengwei. As at 30 June 2020, Shanghai Fengwei has paid out US\$3,198,996 of the management service fee to the Entity and the remaining unpaid amount of US\$3,216,693 is recorded as part of other payables (Note 30) in the consolidated statement of financial position. The management service fee were included as tax deductions in the calculation of income tax and the related input value added tax were deducted with the output tax in the declaration of the value added tax.

(b) Management Agreement (between the Company, the Entity and Shanghai Fengwei)

Pursuant to the Management Agreement, the Entity will manage and expand the business of Shanghai Fengwei and the Group would receive upfront a guaranteed profit of US\$2,828,400 (S\$4,000,000) for the period from 1 January 2020 to 31 December 2021 (the "Consideration"). The Company has also assigned management rights and the profits of Shanghai Fengwei during the period from 1 January 2020 to 31 December 2021 to the Entity. All post-tax profits or losses during the aforesaid period, whether in excess of or less than the Consideration, shall be attributable to or borne by the Entity. The Consideration of US\$2,828,400 (S\$4,000,000) was received by the Company in Singapore dollars on 21 May 2020 through a Singapore incorporated company, who is also a shareholder of the Company. Management has assessed that the Group continues to have control over Shanghai Fengwei (Note 3).

The Group and Company also recorded US\$1,267,708 as consultancy and marketing fee in other operating expenses in the profit or loss (Note 30).

As at 30 June 2020, the Group and Company recorded an amount of US\$4,096,108 as part of other payables (Note 19) in the statement of financial position which included the Consideration received of US\$2,828,400 and the fees payable of US\$1,267,708 to the Entity in relation to the assignment of the profits of Shanghai Fengwei from 1 January 2020 to 30 June 2020.

The former auditor was unable to obtain sufficient appropriate audit evidence, although management provided responses and explanations relating to the former auditor inquiries for the above-mentioned agreements, on the following matters:

- the business rationale, commercial substance and structuring of the two above-mentioned arrangements and whether the Group continues to have control over Shanghai Fengwei, the appropriateness of the corresponding accounting treatment and related presentation of the arrangements in the financial statements, and whether these are in the normal course of business, including the arrangement for the receipt of the Consideration;
- in relation to the Management Service Agreement, the business rationale and commercial substance regarding the management service fee charged by the Entity during the period from April to June 2020, and whether there are any potential tax exposures and impact of any non-compliance with regulatory and/or legal requirements arising from the above transactions. If there is no commercial substance for the management service fee, according to the relevant tax regulations of the People's Republic of China, the charges and expenses without appropriate business substances are not tax deductible in the calculation of income tax and the related input value added tax are not allowed to be deductible with the output tax in the declaration of value added tax.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2021

41 Basis for disclaimer opinion on the financial statements for the financial year ended 30 June 2020 (cont'd)

Disclaimer of Opinion (cont'd)

- (a) Management service agreement and management agreement (Note 19) (cont'd)

Consequently, the former auditor were unable to determine whether any adjustments to and/or disclosures in the accompanying financial statements may be necessary.

- (b) Financial asset at fair value through other comprehensive income ("FVTOCI")

As at 30 June 2020, the Group's financial asset measured at fair value through other comprehensive income ("FVTOCI") relates to 4.534% equity interest in Thai General Nice Coal and Coke Co., Ltd ("Thai GNCC"). As at 30 June 2020, the Group has recorded a fair value loss of US\$2,544,699 on the financial asset at FVTOCI, bringing its carrying amount to US\$17,191,806.

As disclosed in Note 17 to the financial statements, management has engaged an independent professional valuer to carry out a valuation on the equity interest of Thai GNCC using the income approach. The income approach requires the use of key assumptions and management estimates which include forecasted revenue, growth rates, profit margins and discount rate to derive the net present value of the business enterprise. The valuation performed by the independent professional valuer is the enterprise value of Thai GNCC after other valuation adjustments have been made to determine the equity value of the 4.534% interest held by the Group.

As at the end of the financial year, Thai GNCC has yet to commence its operations and management has no visibility to the future plans and developments and access to its records. Accordingly, the former auditor were unable to determine the appropriateness of the valuation methodology, and could not obtain reliable supporting information to evaluate the reasonableness of the key assumptions underlying the forecasts.

Consequently, the former auditor were unable to obtain sufficient appropriate audit evidence on the fair value of the financial asset at FVTOCI of US\$17,191,806 and fair value loss of US\$2,544,699 recorded in other comprehensive income for the year ended 30 June 2020.

The former auditor audit opinion on the financial statements for the financial year ended 30 June 2019 was modified on the same basis.

42 Authorisation of financial statements

The consolidated financial statements of the Group and statement of financial position and statement of changes in equity of the Company for the financial year ended 30 June 2021 were authorised for issue in accordance with a resolution of the directors dated 13 October 2021.