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

Report on the Audit of the Financial Statements

Qualified Opinion

We have audited the financial statements of New Silkroutes Group Limited (the “Company”) and its subsidiaries (the “Group”), which comprise the consolidated statement of financial position of the Group and the statement of financial position of the Company as at 30 June 2019, 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 year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 45 to 126.

In our opinion, except for the possible effects of the matters described in the Basis for Qualified Opinion section of our report, the accompanying consolidated financial statements of the Group and the statement of the financial position and statement of changes in equity of the Company are properly drawn up in accordance with the provisions of the Companies Act, Chapter 50 (the “Act”) and Financial Reporting Standards (International) (“FRS(I)”) so as to give a true and fair view of the consolidated financial position of the Group and the financial position of the Company as at 30 June 2019 and of the consolidated financial performance, consolidated changes in equity and consolidated cash flows of the Group and statement of changes in equity of the Company for the year ended on that date.

Basis for Qualified Opinion

Financial asset at fair value through other comprehensive income (“FVTOCI”)

As at 30 June 2019, 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”) (previously classified as “available-for-sale investment”). As described in the “Other Matter” section below, the financial statements for the year ended 30 June 2018 were audited by another auditor who expressed a qualified opinion on those financial statements. One of the matters related to the appropriateness of the carrying amount of US$21,672,520 of the available-for-sale investment as at 30 June 2018 and the fair value loss of US$987,476 for the year then ended.

As at 30 June 2019, the Group has recorded fair value loss of US$1,936,016 on the financial asset at FVTOCI, bringing its carrying amount to US$19,736,505.

As disclosed in Note 15 to the financial statements, management has engaged a firm of 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, we 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, we were unable to obtain sufficient appropriate audit evidence on the fair value of the financial asset at FVTOCI of US$19,736,505 and fair value loss of US$1,936,016 recorded in other comprehensive income for the year ended 30 June 2019.

We conducted our audit in accordance with Singapore Standards on Auditing (“SSAs”). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Group in accordance with the Accounting and Corporate Regulatory Authority 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. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Other Matter

The financial statements of the Group for the year ended 30 June 2018 were audited by another auditor who expressed a qualified opinion on those statements on 10 October 2018 as described in Note 34 to the financial statements.
INDEPENDENT AUDITOR’S REPORT
TO THE MEMBERS OF NEW SILKROUTES GROUP LIMITED

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In addition to the matter described in the Basis for Qualified Opinion section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Impairment of goodwill, intangible assets and vessel

The Group reviews goodwill, intangible assets and vessel for impairment annually. The goodwill and intangible assets and vessel are disclosed in Notes 14 and 13 to the financial statements.

Management exercises significant judgements in the assumptions on inputs used in the discounted cash flow forecasts to determine the recoverable amounts for goodwill and intangible assets. For the vessel, market approach has been adopted by the management whereby management has engaged an external valuer to estimate market value of the vessel based on market comparables less valuation adjustments. The key assumptions used by management are disclosed in Notes 3 and 14 to the financial statements.

Our audit procedures included critically challenging key assumptions on growth rates and discount rates used by management in the impairment review. We also performed sensitivity analysis around the key inputs including growth rates and discount rates used in the cash flow forecasts. We compared the growth rates to recent business performance and involved our valuation specialists to evaluate appropriateness of management’s assumptions which include discount rates. For the vessel, we assessed the methodology used by the valuer to derive the market value and involved our valuation specialist in ascertaining the reasonableness of the valuation.

Business combinations

During the year, the Group acquired a group of medical clinics and Shanghai Fengwei Garment Accessory Co., Ltd. for a total purchase consideration of US$17,494,523 (Note 5). Under SFRS(i) 3 Business Combinations, the Group is required to assess and determine the fair values of the assets acquired and liabilities assumed, including any identifiable intangible assets. Any excess of the purchase consideration over the fair value of net assets acquired is recognised as goodwill. Significant management judgement is involved in the valuation of these assets and liabilities. The goodwill arising from the above acquisition of US$13,526,130 (Note 5) is dependent on the valuation of the assets acquired and liabilities assumed (including any intangible assets).

We discussed and reviewed management’s assessment of the acquisitions which was accounted for as business combinations. Our procedures included reading the key terms of the purchase agreements to obtain an understanding of the transactions. We assessed management’s identification and fair value measurement of the identifiable assets and liabilities and the calculation of the goodwill. We involved our valuation specialist, where applicable to evaluate management’s basis for identification of intangible assets and goodwill.

Amount due from a former related party

Included in trade and other receivables (Note 8) as at 30 June 2019 is an amount of US$2,614,119 due from a company ("former related party") owned by a former director of the company. The Company and a subsidiary has in prior year commenced legal claim to recover the amount from the former related party. The former related party has disputed the claim and asserted a counterclaim of US$1,636,055 against the Company and the subsidiary. The recoverability of the amounts is dependent on the outcome of legal proceedings which cannot be predicted with certainty and is beyond the control of management. As such, there is uncertainty relating to the timing and probability of success on the amounts of claim and counterclaim. Management has assessed and is confident of the success of the claim.

We read the correspondences provided by management relating to the legal claim. We held discussions with the external solicitor to understand the nature and progress of the claim, as well as the status and development in the current year. We have also requested and received a confirmation from the legal solicitor on the above, noting that the outcome of the suit will be dependent on the court’s assessment of the documentary and oral evidence presented. The Company and the subsidiary will likely to prevail also in the counterclaim in the event of a success. Although there is no certainty of the outcome, based on the totality of the evidence, the Company and a subsidiary have reasonable prospects of a success on their claim. We have obtained management’s representation and challenged management’s assessment with respect to the classification and valuation of the amounts recorded as at 30 June 2019.
INDEPENDENT AUDITOR’S REPORT
TO THE MEMBERS OF NEW SILKROUTES GROUP LIMITED

Going concern

The Group is in a net current liability position of US$2,420,035 as at 30 June 2019 and incurred net operating cash outflow of US$5,514,513 for the financial year then ended. The net current liability position is mainly due to the classification of bank borrowings amounting to US$3,633,361 as current liabilities as disclosed in Note 19 where the Group did not meet a financial covenant. As disclosed in Note 3, excluding this amount of US$3,633,361 the Group would be in net current asset position of US$1,203,326. Based on the Group’s cash flow forecast up to October 2020 drawn up by management, the Board of Directors has concluded that there is no material uncertainty regarding the Group’s ability to continue as a going concern. Management’s critical judgements underlying the cash flow forecast are set out in Note 3 to the financial statements.

Our audit procedures focused on evaluating the judgements used by management in their going concern assessment. We discussed with management on their assessment of the Group’s liquidity risks. We also obtained the Group’s cash flow forecast up to October 2020 and challenged the key assumptions made by management, and reviewed a loan agreement entered into by the Group subsequent to end of the reporting period till the end of this report. We evaluated management’s plans for raising additional funding through share placement. We have also obtained and reviewed the waiver granted by a financial institution on the breach of covenant. In addition, we reviewed the disclosures in the financial statements.

Information other than the Financial Statements and Auditor’s Report Thereon

Management is responsible for the other information. The other information comprises the Directors’ statement, which we obtained prior to the date of this auditor’s report, and the other remaining information in the annual report, which is expected to be made available to us after that date.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor’s report, we conclude that there is material misstatement of this other information, we are required to report that fact. As described above, we have issued a qualified opinion for the reasons explained in the Basis for Qualified Opinion section of our report. Accordingly, we are unable to conclude whether or not the Directors’ statement is materially misstated with respect to the directors’ opinion on the financial statements.

When we read the other remaining information included in the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors and take appropriate actions in accordance with SSAs.

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 Act and SFRS(I)s, 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.

Auditor’s Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
INDEPENDENT AUDITOR’S REPORT
TO THE MEMBERS OF NEW SILKROUTES GROUP LIMITED

As part of an audit in accordance with SSAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

a) Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

b) Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group’s internal control.

c) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

d) Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Group to cease to continue as a going concern.

e) Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

f) Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor’s report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

In our opinion, 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 auditor 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 Lee Boon Teck.

Deloitte & Touche LLP
Public Accountants and
Chartered Accountants
Singapore

9 October 2019
NOTES TO THE FINANCIAL STATEMENTS
30 JUNE 2019

15 AVAILABLE-FOR-SALE INVESTMENTS/FINANCIAL ASSET AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

<table>
<thead>
<tr>
<th>Group</th>
<th>30 June 2019</th>
<th>30 June 2018</th>
<th>1 July 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>US$</td>
<td>US$</td>
<td>US$</td>
</tr>
<tr>
<td>Unquoted equity security, at fair value</td>
<td>19,736,505</td>
<td>21,672,521</td>
<td>14,090,000</td>
</tr>
</tbody>
</table>

At the end of the reporting period, the Group has 4.534% (2018: 4.534%) equity interest in Thai General Nice Coal and Coke Co., Ltd ("Thai GNCC") of US$19,736,505 (2018: US$21,672,520), 1 July 2017: US$ 14,090,000).

On 26 June 2018, the Group entered into a debt repayment agreement with a company owned by a former director of the company, pursuant to which the refundable deposits and accrued interest of US$3,669,996 and prepayments of US$4,900,000, amounting to US$8,569,996 in total, were repaid in full by way of the transfer of 857,000 ordinary shares in the capital of Thai GNCC at the price of approximately US$10 per share from Tianjin GNCC to the Group’s wholly-owned subsidiary, International Energy Group Pte. Ltd. ("IEG"). The share transfer agreement was made between Tianjin GNCC and IEG on 30 June 2018.

Consequently, the total investment in Thai GNCC became 4.534%, and the cost of the investment in Thai GNCC became US$22,659,996 as at 30 June 2018 before recognising any fair value changes.

Management has engaged a firm of independent professional valuers to carry out valuation of Thai GNCC. In determining the fair value of Thai GNCC, the valuers used the income approach. Based on the valuation of US$435,268,000 (2018: US$478,000,000), the 4.534% equity interest in Thai GNCC held by the Group was determined to be US$19,736,505 (2018: US$21,672,520). Accordingly, a fair value loss of US$1,936,016 (2018: US$987,476) was recognised in other comprehensive income.

16 DEFERRED TAXATION

<table>
<thead>
<tr>
<th>Group</th>
<th>30 June 2019</th>
<th>30 June 2018</th>
<th>1 July 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>US$</td>
<td>US$</td>
<td>US$</td>
</tr>
<tr>
<td>At beginning of year</td>
<td>(349,678)</td>
<td>(412,678)</td>
<td>-</td>
</tr>
<tr>
<td>Acquisition of subsidiaries (Note 5)</td>
<td>(366,471)</td>
<td>-</td>
<td>(268,898)</td>
</tr>
<tr>
<td>Recognised in profit or loss (Note 28)</td>
<td>247,631</td>
<td>63,000</td>
<td>(143,780)</td>
</tr>
<tr>
<td>At end of year</td>
<td>(468,518)</td>
<td>(349,678)</td>
<td>(412,678)</td>
</tr>
</tbody>
</table>

Comprising:

Deferred tax assets | 199,176 | 36,755 | - |
Deferred tax liabilities | (667,694) | (386,433) | (412,678) |

(468,518) | (349,678) | (412,678) |