

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF SEN YUE HOLDINGS LIMITED

Report on the Audit of the Financial Statements

Qualified Opinion

We have audited the financial statements of Sen Yue Holdings 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 September 30, 2022, 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 67 to 147.

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 financial position and statement of changes in equity of the Company are properly drawn up in accordance with the provisions of the Companies Act 1967 (the "Act") and Singapore Financial Reporting Standards (International) ("SFRS(I)s") 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 September 30, 2022 and of the consolidated financial performance, consolidated changes in equity and consolidated cash flows of the Group and of the changes in equity of the Company for the year ended on that date.

Basis for Qualified Opinion

As described in the Other Matter section of our report, the financial statements of the Group and the Company for the financial year ended September 30, 2021 were audited by another auditor (the "predecessor auditor") who expressed a disclaimer of opinion on those financial statements. During the current year ended September 30, 2022, management has taken steps to address some of those matters as disclosed in Note 2 to the financial statements. Our opinion on the current year's financial statements is qualified on the following matters:

- (a) Impairment Assessment of Property, Plant and Equipment ("PPE") and Right-Of-Use Assets ("ROU") of SMC Industrial Pte. Ltd. ("SMCI")

In the prior year ended September 30, 2021, the Group had PPE and ROU amounting to \$6,728,000 and \$1,667,000 respectively which were attributable to one of the Group's subsidiaries, SMCI, as a single cash-generating unit ("CGU"). As management did not perform an impairment assessment to estimate the recoverable amount of SMCI as one CGU as at September 30, 2021 in accordance with the requirements of SFRS(I) 1-36 *Impairment of Assets*, the predecessor auditor's opinion was modified accordingly.

During the current year, management has performed an impairment assessment in accordance with the requirements of SFRS(I) 1-36 *Impairment of Assets* where indicators of reversal of impairment were identified. Management determined that the net carrying amount of PPE and ROU to be \$5,008,000 and \$2,211,000 as at September 30, 2022, which included a reversal of impairment losses of \$326,000 and \$667,000 respectively for PPE and ROU related to SMCI.

As we were unable to obtain sufficient appropriate audit evidence on the opening balances of PPE and ROU as described above, we were also unable to determine whether adjustments to the current year's consolidated profit or loss and opening retained earnings of the Group might be necessary in respect of the reversal of impairment losses recognised during the current year.

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(b) Impairment Assessment of the Company's Investment in Subsidiaries

In the prior year ended September 30, 2021, the carrying amount of the Company's investment in subsidiaries was \$8,887,000, net of impairment allowance of \$22,999,000. As management did not provide a complete assessment of the recoverable amounts as at September 30, 2021 in accordance with the requirements of SFRS(I) 1-36 *Impairment of Assets*, the predecessor auditor's opinion was modified accordingly.

During the current year, management has performed an impairment assessment in accordance with the requirements of SFRS(I) 1-36 *Impairment of Assets* and determined that the net carrying amount of the Company's investment in subsidiaries to be \$9,463,000 as at September 30, 2022 which included a reversal of impairment loss of \$576,000.

As we were unable to obtain sufficient appropriate audit evidence on the opening balance of investment in subsidiaries as described above, we were also unable to determine whether adjustments to the opening retained earnings of the Company might be necessary in respect of the reversal of impairment loss recognised during the current year.

(c) Possible impact on comparability of current year and corresponding figures of revenue and cost of sales

As disclosed in Note 2 to the financial statements, for the prior year ended September 30, 2021, the predecessor auditor's opinion was modified on certain revenue and cost of sales recorded by two subsidiaries of the Group.

Our opinion on the financial statements for current year ended September 30, 2022 is qualified because of the possible effects of this matter on the comparability of the current year figures with the corresponding prior year figures.

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 and the Company for the year ended September 30, 2021 were audited by another auditor who expressed a disclaimer of opinion on those financial statements on December 28, 2022. The basis for disclaimer of opinion and the steps taken by management to address some of those matters during the current year are disclosed in Note 2 to the financial statements.

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Information Other than the Financial Statements and Auditor's Report Thereon

Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

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

In connection with our audit of the financial statements, our responsibility is to read the other information 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, we conclude that there is a material misstatement of this other information, we are required to report that fact. As described in the Basis for Qualified Opinion section above, we were unable to obtain sufficient appropriate evidence on the impairment assessment of PPE and ROU as at October 1, 2021, the impairment assessment of the Company's investment in subsidiaries as at October 1, 2021 and comparability of current year figures with the corresponding prior year figures of revenue and cost of sales. Accordingly, we are unable to conclude whether or not the other information is materially misstated with respect to this matter.

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

Key Audit Matters

Going concern assumption

The Group has reported net profit of \$15,926,000 for the year ended September 30, 2022, net assets of \$19,289,000 and net current liabilities of \$741,000 as at September 30, 2022. Included in net current liabilities are trade and other payables amounted to \$9,385,000 and loans and borrowings amounted to \$2,155,000 that will be discharged and extinguished upon making the second tranche of payment to creditors.

The scheme of arrangements ("Schemes") of the Company and SMCI were approved by the creditors on July 15, 2022 and came into effect on August 2, 2022 and the judicial management orders placed on the Company and SMCI were discharged on August 17, 2022. Under the Schemes, the Group has repaid the first tranche of \$6,733,000 during the year. As at September 30, 2022, the Group have outstanding second tranche payment of \$6,588,000 owing to creditors under the Schemes which will fall due within 14 days after the resumption of trading of the Company's securities on Singapore Exchange Securities Trading Limited.

As at the date of authorisation of the financial statements, the Board of Directors has approved the early payment of the second tranche under the Schemes by September 30, 2023.

Based on the Group's cash flows forecast up to September 2024 drawn up by management, the Board of Directors has concluded the Group will have sufficient financial resources to meet its obligation to its creditors under the Schemes and enable the Group to continue as a going concern for at least the next 12 months up to September 2024, and that there is no material uncertainty regarding the Group's ability to continue as going concern.

Management's going concern assessment are set out in Note 4 to the financial statements.

How the matter was addressed in the audit

Our audit procedures included the following:

- obtaining management's cash flows forecast for at least the next 12 months from the date of authorisation of the financial statements and understanding of management's key assumptions underlying the cash flow forecast;
- assessing the appropriateness of the key assumptions used in the forecast, including performing various stress tests; and
- checking that the outstanding debts under the Schemes have been included in the forecast based on management's estimated timing of repayment by September 30, 2023.

Based on our procedures, we noted that the Group's cash flows forecast, including further stress tests where appropriate, supported the Group's going concern assessment.

We have also reviewed the adequacy and appropriateness of the related disclosures made in the financial statements.

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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.

As part of an audit in accordance with SSAs, we exercise professional judgement 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.

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- (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 year 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, except for the matters referred to in the Basis for Qualified Opinion section 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 Tay Hwee Ling.

Deloitte & Touche LLP
Public Accountants and
Chartered Accountants
Singapore

August 30, 2023

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2022

1 GENERAL

The Company (Registration No. 200105909M) is incorporated in Singapore with its principal place of business and registered office at 3 Jalan Pesawat, Singapore 619361. The Company is listed on the Singapore Exchange Securities Trading Limited ("SGX"). The financial statements are expressed in Singapore dollars.

The principal activity of the Company is that of investment holding. The principal activities of the subsidiaries are disclosed in Note 12.

The consolidated financial statements of the Group and statement of financial position and statement of changes in equity of the Company for the year ended September 30, 2022 were authorised for issue by the Board of directors on August 30, 2023.

2 SIGNIFICANT MATTERS

The financial statements of the Group and the Company for the year ended September 30, 2021 were audited by another auditor who expressed a disclaimer of opinion on those financial statements on December 28, 2022. The basis for disclaimer of opinion (extracted from the predecessor auditor's report) and the steps taken by management to address some of those matters during the current year, are described below:

(i) Opening balances - Sales/purchases transactions with certain customers/suppliers

"As disclosed in the Group's financial statements for the financial year ended 30 September 2020 ("FY2020"), Foo Kon Tan Advisory Services Pte Ltd ("FKT") issued two review findings reports dated 17 June 2020 and 16 December 2020 (collectively the "IR Reports") in relation to the concerns raised in respect of potential relationships that its former executive chairman, Mr Koh Mia Seng (also a director of the Company) ("Mr Koh"), may have with certain parties or entities that had dealings with one of the subsidiaries of the Company, namely SMC Industrial Pte Ltd ("SMCI").

The IR Reports issued by FKT identified 7 customers/suppliers ("Identified Entities") (also as disclosed in Note 32 to the financial statements), which were allegedly controlled by Mr. Koh, and that some of these transactions between SMCI and these Identified Entities may not be on arm's length and/or bona fide and they may be fraudulent and/or fictitious.

In addition, and as part of our audit procedures on opening balances in one of the material subsidiaries of the Company, namely SYH Resources Pte Ltd ("SYHR"), we have identified that sales transactions totaling S\$1,270,000 recorded by SYHR in FY2020 were attributable to customers that appear to bear the same business registration names as 2 of the 7 Identified Entities. The resulting trade receivable balance from these sales transactions was S\$91,000 as at 30 September 2020, for which full impairment has been made by SYHR for the financial year ended 30 September 2020.

We were not granted access to audit work papers by the preceding auditors and given the change in management and finance personnel of the Company and certain subsidiaries of the Group, we were also unable to have access to the complete accounting records and source documents and obtain satisfactory explanations from the incumbent management. Consequently, we were unable to carry out alternative audit procedures to determine the appropriateness of these recorded sales transactions in FY2020 and we were therefore unable to satisfy ourselves regarding the occurrence, nature and the appropriateness of accounting treatment for these transactions, and relevant disclosures in so far as the comparative figures and opening balances in the accompanying financial statements are concerned. In addition, we were unable to ascertain whether there were any breach of applicable laws and regulations in respect of this matter."

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(ii) Revenue and cost of sales

(a) Revenue recognition and payments received

“During the current financial year, both SMCI and SYHR recorded sales to external customers of S\$17,007,000 and S\$23,209,000 respectively, which in aggregate contributed to approximately 72% of the Group’s revenue in financial year ended 30 September 2021 (“FY2021”).

As disclosed in Note 32 to the financial statements, in FY2021, SMCI continued to record sales transactions with one of the Identified Entities, i.e. Tai Zhou Yi Ze Metal Co. Ltd (“TZY”) for an aggregate amount of S\$925,000, of which SMCI has fully impaired in the same financial year.

On the other hand, SYHR recorded revenue of S\$6,166,000 from export sales to 2 new overseas customers; and S\$6,666,000 from sales of goods to 2 new local customers in current financial year, which in aggregate contributed to 23% of revenue recorded by the Group. In the course of audit, we noted that there are potential connections between these 2 groups of customers via common shareholders, legal representative or agency relationship, and that one of them is substantially owned by a former key management personnel of the Group.

We further performed substantive test of details, such as review of sale contracts, invoices, shipping documents and subsequent receipts to verify sales transactions recorded by SMCI and SYHR in current financial year and noted lapses in the form of inconsistencies and/or incomplete supporting source documents relating to sales transactions. There were also instances, whereby goods were arranged for delivery to other parties or destinations which were inconsistent with the details stated in the corresponding sales contracts, invoices and shipping documents. As a result, we were unable to positively identify these sales transactions with the parties of the sale contracts to relevant shipping documents to signify customers’ acceptance of goods delivered. We also noted in several occasions that payments for certain sales (including those pertaining to overseas customers) were made by way of cash deposits or by other parties or via offsetting arrangements with certain suppliers of SMCI and SYHR and these parties do not have any apparent relationships with the relevant customers.

As disclosed in the Group’s accounting policy, the Group recognises the revenue from sales of goods at the point in time upon transferring the control of goods to a customer. Given the pervasiveness of lapses as mentioned above, the involvement of parties who do not appear to be directly related to the contractual arrangements with the Group and the potential connections between major customers as highlighted in preceding paragraph, we were unable to obtain sufficient appropriate audit evidence nor carry out alternative audit procedures to satisfy ourselves with regards to the occurrence, completeness, bona fides and commercial substance of sales transactions recorded by both SMCI and SYHR. Accordingly, we were unable to determine the appropriateness of the accounting treatment and whether further adjustments to the accompanying financial statements might be necessary in addressing the matter.

b) Cost of sales

During the current financial year ended 30 September 2021, SMCI and SYHR recorded total cost of sales of S\$34,904,000, which accounted for approximately 79% of the cost of sales of the Group.

NOTES TO FINANCIAL STATEMENTS

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In the course of audit, we have performed substantive test of details, such as review of supplier's contracts, invoices and shipping documents to verify purchases of e-waste materials recorded by the Group. Due to incomplete supporting source documents such as delivery orders, goods received notes, suppliers' invoices and shipping documents pertaining to the purchase transactions selected for our verification, we were unable to obtain sufficient appropriate audit evidence nor carry out alternative audit procedures to satisfy ourselves on the occurrence, completeness and accuracy of certain purchases recorded as cost of sales in the financial statements for FY2021. Accordingly, we were unable to determine the appropriateness of the accounting treatment and whether adjustments to the cost of sales in the Group's financial statements might be necessary in addressing the matter."

Update by management in FY2022:

During the current year, the Company and its subsidiary, SMC Industrial Pte. Ltd. ("SMCI") were largely controlled by Judicial Managers ("JMs") and the Group did not conduct any such sale/ purchases with identified related entities. As at September 30, 2021, out of \$37,926,000 of SMCI's trade receivables from third parties, management has provided \$37,307,000 of expected credit loss provision. The provision of receivables pertained to those Identified Entities. Based on the Schemes (Note 31 (a)(i)), the beneficial interests of these receivables have been assigned to settle the creditors and accordingly, were fully written-off in current year, as disclosed in Note 8. Trade receivables from opening balance that were not written off had been fully collected in current year. Liabilities arising from prior year amounted to \$22,624,000 were reviewed and admitted by the JMs. Under the Schemes, the Group has repaid the first tranche of \$6,733,000 during the year (Note 31(a)(i)). As at the date of authorisation of the financial statements, the Board of Directors has approved the early payment of the second tranche under the Schemes by September 30, 2023.

(iii) Ongoing criminal investigation

"Arising from the IR Reports referred to above and as disclosed in Note 32 to the financial statements, following the lodgment of report by the Company, the Commercial Affairs Department ("CAD") had on 27 January 2021 issued an order to the Company pursuant to Section 20 of the Criminal Procedure Code (Chapter 68), to procure certain documents and information for the financial years ended 30 September 2015 to 2020 in relation to the offences under Penal Code (Cap. 224) and the Securities and Futures Act (Cap.289) of Singapore.

As of the date of this report, the investigation of the CAD is still ongoing. We were unable to determine if any adjustments to and/or additional disclosures in the Group's financial statements might be necessary arising from the outcome of the investigation."

Update by management in FY2022:

Management has obtained an external independent legal opinion. Taking into consideration of the legal opinion, management understand that (i) it is unlikely that the Board of Directors were acting in an intentional or reckless manner in the failure to notify the SGX of any of the suspected interested person transactions ("IPT"). Consequently, no criminal liability for a contravention of section 203 of the Securities and Futures Act will be attributed to the Company; (ii) in the present case, it is arguable that the former executive chairman had been acting in his personal capacity at all material times. In this respect, the Company should not be held liable for the former executive chairman's conduct; (iii) the possible financial penalties that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events that are not wholly within the control of the Company.

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The CAD's investigation is still on-going at the date of authorisation of the financial statements. Based on the review of the legal opinion, management has assessed that it is premature to ascertain such financial liabilities will crystallise and to measure the quantum with sufficient reliability, if any. To the extent that it is uncertain whether such liabilities would be made out, it is appropriate to disclose the liabilities as contingent liabilities as at September 30, 2022 and no further adjustments are necessary to the prior year financial statements ended September 30, 2021.

(iv) Joint venture arrangement

"As disclosed in Note 8(b) of the financial statements, two subsidiaries of the Group, SMCI and SMCI Refinery Pte Ltd, had in the previous financial year entered into a joint venture ("JV") Agreement with Electroloy Metal Pte Ltd ("Electroloy") and Mr Wang Chun Jian (collectively, the "JV Partners") to build a smelting facility ("Smelter") in Singapore at an estimated aggregate cost of S\$4,000,000, to extract and recover non-ferrous metals from e-waste materials and metal scraps.

As disclosed in FY2020 preceding auditor's report, there was inconsistent understanding of the Joint Venture arrangement between the rest of Board of directors of the Company and the former Executive Chairman on the interpretation of the cash outlay required from the Group for the establishment of Smelter. There was also disagreement between the former Executive Chairman and rest of Board of directors of the Company over the nature of certain expenses incurred prior to the construction of the Smelter as announced by the Company on 27 April 2020. Further, there was no formal agreement between the Group and the JV Partners on the recovery of the expenses incurred by the Group in relation to the Smelter. The former Executive Chairman had informed that the JV partners requested to revise the terms of the JV Agreement and the Group announced on 22 May 2020 that it would seek legal advice to clarify the terms of the JV Agreement.

As of the date of this report, the total cumulative construction costs incurred by the Group for the Smelter under this JV arrangement was S\$2,053,000, of which S\$666,000 was incurred in FY2020 and S\$1,387,000 in FY2021. All such construction costs were respectively expensed off to profit or loss in FY2020 and FY2021."

Update by management in FY2022:

As of the date of authorisation of the financial statements, management has obtained an acknowledgement letter signed by SMCI and the JV Partners, who acknowledged and confirmed that i) the conditions precedents in the JV agreement dated October 7, 2019 ("JVA") were not fulfilled or waived by the JV Partners by January 31, 2020 and hence, the JVA had ceased; and ii) none of the JV Partners have any claim against each other and there had been no antecedent breaches of the terms of the JVA as well.

The Group does not intend to continue the construction of the Smelter. Accordingly, the construction costs incurred by SMCI which were expensed into profit or loss in earlier periods, was appropriately expensed rather than capitalised for both 2021 and 2022. The management has also assessed, by taking into consideration of legal opinion obtained, that neither the Company or SMCI is exposed to any claims from JV Partners arising from the JVA. Accordingly, no further adjustments are necessary to the prior year financial statements ended September 30, 2021.

(v) Existence, valuation, and completeness of inventories

"As at 30 September 2021, the Group recorded inventory balance at S\$1,840,000, with more than 50% of the inventory balance carried by SMCI. There was no physical stock counting exercise conducted as at 30 September 2021 while the Company and SMCI were under judicial management from 1 April 2021 to 17 August 2022.

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Due to the incomplete documentary trail mentioned in preceding paragraphs, we were also unable to perform alternative audit procedures that we considered necessary to validate the physical quantities and purity of content of the e-waste inventories held by the Group as at 30 September 2021. Consequently, we were unable to satisfy ourselves on the existence, completeness and valuation of the Group's e-waste inventories as at 30 September 2021. In addition, as management did not furnish us with the calculation of inventory overhead costs allocation, we were therefore unable to obtain sufficient appropriate audit evidence to conclude whether the carrying amount of SMCI's inventories were carried at the lower of cost and net realisable value, and on the appropriateness of reversal of allowance for inventory obsolescence amounting to S\$1,732,000 in current financial year, as disclosed in Note 12 to the financial statements."

Update by management in FY2022:

A full physical stock count was conducted on September 30, 2022 by management to validate the physical quantities, and management also reviewed the inventory allowance and inventory cost overhead allocation. Management also noted that subsequent sales of the products were all higher than the cost price. The current auditors attended the stock take on June 1, 2023. Management was able to extract the stock movement from the inventory system to perform roll-backward procedures to September 30, 2021 by referring to a complete set of supporting documentation. Accordingly, no further adjustments except for costs of inventories conversion (see Note 32) are necessary to the prior year financial statements ended September 30, 2021.

(vi) Valuation and impairment assessment of non-financial assets

a) *Valuation of leasehold factory building ("Leasehold Factory")*

"As at 30 September 2021, the Group recorded leasehold land and buildings at net carrying amount of S\$9,940,000 of which S\$5,600,000 was attributable to the Leasehold Factory located at Jalan Pesawat, Singapore, currently occupied by SMCI for e-wastes processing operations. The fair value of Leasehold Factory as of 30 September 2021 was estimated at S\$5,600,000 based on the Income Capitalisation Method by an independent valuer; while it was disclosed in the FY2020 financial statements that the Leasehold Factory was recorded at revalued amount (fair value) of S\$12,300,000, which was estimated using the Direct Comparison Method and Investment Method of Valuation by another independent valuer.

We were not granted access to audit workpapers by the preceding auditors and we were unable to obtain satisfactory explanations (including the reasons thereof) from management or independent valuers on the substantial decrease in the fair value of the Leasehold Factory from S\$12,300,000 as at 30 September 2020 to S\$5,600,000 as at 30 September 2021. Consequently, we were unable to satisfy ourselves regarding the appropriateness of valuation of the leasehold land and building of the Group as at 30 September 2021 and the other comprehensive loss in FY2021 including the corresponding tax effect."

Update by management in FY2022:

Management re-assessed the group accounting policy of valuation of building and land. Considering that the Group's building and land are used for production purpose solely, rather than investment purpose, management decided to voluntarily elect to change its accounting policy from revaluation model to cost model (Note 32). With retrospective application of change in accounting policy, valuation of all buildings and land as at September 30, 2021 are thus restated. Difference in valuation is reversed from revaluation reserve, resulting in restatement of \$4,850,000 to the opening retained earnings as at September 30, 2021. Consequently, prior year financial statements are adjusted accordingly.

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b) *Impairment assessment of Property, Plant and Equipment (“PPE”) and Right-of-Use Assets (“ROU Assets”)*

“As at 30 September 2021, the Group has PPE and ROU Assets at net carrying amounts of S\$22,043,000 and S\$1,776,000 respectively. Of these balances, PPE and ROU Assets amounting S\$6,728,000 and S\$1,667,000 respectively were attributable to SMCI as a single cash-generating unit (“CGU”).

As SMCI recorded substantial operating losses in both the current and previous financial years, we have requested management to perform impairment test as at 30 September 2021. However, management did not perform impairment assessment to estimate the recoverable amount of SMCI as one CGU as at 30 September 2021 in accordance with the requirements of SFRS(I) 1-36 Impairment of Assets. In the absence of this, we were consequently unable to obtain sufficient appropriate audit evidence to determine the recoverable amount of SMCI, and on the respective amounts of impairment losses that may be necessary for its PPE and ROU Assets for financial year ended 30 September 2021.

We were also unable to carry out alternative audit procedures nor were we able to obtain satisfactory explanations from the incumbent management in determining the appropriateness of the basis and timing of recognition of impairment losses for PPE and ROU Assets of S\$621,000 and S\$918,000 respectively in FY2020. Accordingly, we were unable to satisfy ourselves regarding the carrying amount of SMCI’s PPE and ROU Assets, and relevant disclosures as far as the comparative figures and opening balances in the accompanying financial statements are concerned.”

c) *Impairment assessment of investment in subsidiaries*

“As at 30 September 2021, the carrying amount of the Company’s investment in subsidiaries was S\$8,887,000, net of impairment allowance of S\$22,999,000 as disclosed in Note 8 to the financial statements. During the financial year, the management carried out a review of recoverable amounts of the Company’s investment in subsidiaries as there were indications that these investments may be impaired as a result of past operating losses sustained in certain subsidiaries. Based on their review, management has determined the recoverable amounts and impairment losses based on net asset values of these individual subsidiaries and on this premise, an impairment loss of S\$3,354,000 was recognised in current financial year in respect of the Company’s investment in three of the subsidiaries, as disclosed in Note 8 to the financial statements.

Management did not furnish us with a complete assessment of the recoverable amounts as at 30 September 2021 in accordance with the requirements of SFRS(I) 1-36 Impairment of Assets. Without relevant discounted cash flow projections of these material subsidiaries, we were unable to obtain sufficient appropriate audit evidence to determine their recoverable amounts and whether the impairment loss totaling S\$3,354,000 made by management for financial year ended 30 September 2021 was appropriate. Accordingly, we were unable to ascertain whether any adjustment to the carrying amounts as at 30 September 2021 would be required with a corresponding effect on the loss for the current financial year.

Similarly, we were also unable to carry out alternative procedures nor were we able to obtain satisfactory explanations from the incumbent management in order to determine the appropriateness of the basis and timing of the impairment allowance of S\$19,645,000 previously provided by the Company in respect of its investment in subsidiaries. Accordingly, we were unable to satisfy ourselves regarding the carrying amount of investment in subsidiaries as of 1 October 2020 and relevant disclosures and comparatives in the accompanying financial statements.”

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2022

(vii) Going concern assumptions

“As disclosed in Note 2 to the financial statements, the Group reported a net loss of S\$5,529,000 for the financial year ended 30 September 2021. In addition, as at 30 September 2021, the Group’s current liabilities exceeded the current assets by S\$21,926,000; while the Company’s current liabilities exceeded its current assets by S\$10,776,000. During the financial year, the Company and its subsidiary, SMCI, were placed under judicial management. Subsequently, a scheme of arrangement for each of the Company and SMCI (“the Schemes”) was proposed by the joint and several judicial managers and approved by the scheme creditors, and finally sanctioned by the High Court of Singapore in July 2022. The implementation of the Schemes is ongoing. Thereupon, the judicial managers were discharged in August 2022.

The above events or conditions indicate the existence of material uncertainties which may cast significant doubt on the ability of the Group and of the Company to continue as going concerns. Nevertheless, the financial statements of the Group and of the Company for the financial year ended 30 September 2021 have been prepared on a going concern basis by management and directors of the Company on the assumptions and/or representations they set out in Note 2 to the financial statements and the Directors’ Statement. Be that as it may, in our view, the validity of the going concern basis of preparation of financial statements is principally dependent on:

- (i) the ultimate successful implementation of Schemes which is in turn subject to, among others, the resumption of trading of the Company’s securities on the Singapore Exchange (“SGX”);*
- (ii) the ability of the Group to generate sufficient and sustainable operating profits and cash flows over the next 12 months from the date of these financial statements to meet its operating and financial obligations as and when they fall due; and*
- (iii) the ability of the Group to procure additional financing and to garner the continuous support of its existing financiers.*

In relation to (i), while the implementation of the Schemes is ongoing and that it is the Company’s intention to submit its application for trading resumption in due course, there is no certainty that its application will eventually be granted by the SGX. With regard to (ii), it is unclear whether the Group is able to generate sufficient and sustainable operating profits and cash flows to meet its obligations as and when they fall due since management has merely represented that there was no material factors or circumstances that exists which indicates the Group is unable to preserve and maintain its revenue streams from its business operations over the next 12 months; but has been silent on the sufficiency and sustainability of its profits and cash flows. Additionally, we were not provided with sufficient information to evaluate the management’s representation on the preservation and maintenance of the Group’s future revenue streams. For (iii), the management’s representation of its ability to “explore further other available equity or debt securities to meet its funding requirements, if necessary” is not necessarily tantamount to its ability to procure or secure such financing (including the desired level thereof) when required or as it so wishes.

In view of the above, coupled with a lack of justifications and mitigating factors in substantiating the bases of management’s assumptions, representations and disclosures, we were therefore not able to obtain sufficient appropriate audit evidence to satisfy ourselves on the appropriateness of the use of the going concern assumption adopted by management in the preparation of these financial statements.”

Update by management in FY2022:

During the current year, management has assessed that the going concern assumption is appropriate and there is no material uncertainty regarding the Group’s ability to continue as a going concern. Management’s going concern assessment are set out in Note 4 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2022

(b) Going concern assumption

The Group has reported net profit of \$15,926,000 for the year ended September 30, 2022, net assets of \$19,289,000 and net current liabilities of \$741,000 as at September 30, 2022. Included in net current liabilities are trade and other payables amounted to \$9,385,000 (Note 15) and loans and borrowings amounted to \$2,155,000 (Note 14) that will be discharged and extinguished upon making the second tranche of payment to creditors. As at the date of authorisation of the financial statements, the Board of Directors has approved the early payment by September 30, 2023 (Note 31 (b)).

Based on the Group's cash flows forecast up to September 2024 drawn up by management, the Board of Directors has concluded the Group will have sufficient financial resources to meet its obligation to its creditors under the Schemes and enable the Group to continue as a going concern for at least the next twelve months up to September 2024. There is no material uncertainty regarding the Group's ability to continue as going concern, taking into consideration the following:

- a) The Group will be able to continue to generate positive operating cash flows to meet its day-to-day expenditure and monthly instalment pursuant to Restructured Facility Agreement (Note 31(a)(ii));
- b) Management has set aside sufficient fund, informed the JMs of early repayment of second tranche to the creditors and the board of directors has approved such payment by September 30, 2023 on August 30, 2023;
- c) SMCI has set up a new production line to enhance monthly production capacity given there is expanding market demand on lithium-ion battery recycling. Majority of the capital expenditure has been paid for and it is currently undergoing test run; and
- d) Management is looking for various business alternatives to broaden its customer base to penetrate new market and to enhance the profitability 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 have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Calculation of loss allowance

When measuring ECL, the Group uses reasonable and supportable forward-looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.

Loss given default is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements.

Probability of default constitutes a key input in measuring ECL. Probability of default is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions. The carrying amount of trade and other receivables is disclosed in Note 8.