SHEN YAO HOLDINGS LIMITED
(Company Registration No. 202042117W)
(Registered in Singapore)

DISCLAIMER OF OPINION BY THE INDEPENDENT AUDITORS ON THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2021

Pursuant to Rule 704(4) of the Listing Manual Section B: Rules of Catalist (the "**Catalist Rules**") of the Singapore Exchange Securities Trading Limited (the "**SGX-ST**"), the Board of Directors (the "**Board**") of Shen Yao Holdings Limited (the "**Company**", and together with its subsidiaries, the "**Group**") wishes to announce that the Company's Independent Auditors, Ernst & Young LLP (the "**Auditors**"), have included a disclaimer of opinion (the "**Disclaimer of Opinion**") in their Independent Auditors' Report dated 15 November 2021 (the "**Independent Auditors' Report**") in relation to the consolidated financial statements of the Group and the Company for the financial year ended 30 June 2021 ("**FY2021**") (the "**Financial Statements**").

The bases for the Disclaimer of Opinion are contained in the Independent Auditor's Report, a copy of which together with the relevant extract of Note 2.1 to the Financial Statements are attached to this announcement for information.

Pursuant to paragraph 3A of Appendix 7C of the Catalist Rules, the Board wishes to respond to the key bases for the disclaimer of opinion and the efforts being taken to resolve each outstanding audit issue, as the case may be:

1. Insufficient supporting documentation and records

Auditor's Disclaimer Opinion

The following section has been extracted from the Independent Auditor's Report and set out in italics below:

"A subsidiary company of Group operating a mine in Australia has capitalised expenditures relating to its mining properties (Note 14) amounting to S$15,852,000 and inventories (Note 19) of $4,991,000 (comprising both ore and gold inventories) in the consolidated statement of financial position as at 30 June 2021. The Group was unable to provide computations and reconciliations to demonstrate the basis of the allocation of costs between mining properties, ore and gold inventories due to the loss of several key personnel. The Group also has mine rehabilitation and preservation provision of $8,861,000 as at 30 June 2021 (Note 28). Subsequent to the year end, an independent rehabilitation liability assessment was requested by the mining regulators to be undertaken of which the provision amount was preliminarily assessed to be S$6,780,000. We have not been provided a reconciliation for this difference. As a consequence, we are unable to obtain sufficient appropriate audit evidence to assess the appropriateness of the carrying values of the mining properties, inventories and rehabilitation and preservation provision reflected in the consolidated statement of financial position as at 30 June 2021; and the consequential effect on mining costs and other related expenses recorded in the consolidated statement of profit or loss for the year.

In addition, supporting documents and/or sufficient explanations were also not provided to us to complete the audit of the balances relating to other current assets (Note 18), property, plant and equipment (Note 12), trade and other payables (Note 22), deferred consideration (Note 27) and income tax payable. Accordingly, we are unable to obtain sufficient appropriate audit evidence to determine the appropriateness of these balances in the consolidated statement of financial position as at 30 June 2021 and their corresponding effects in the consolidated statement of profit or loss.

Furthermore, the abovementioned matters have impacted our ability to assess the reasonableness of certain key assumptions (such as, operating costs and replacement capital expenditure) used by management in their value-in-use calculations for the impairment assessment on the Company's investment in the relevant subsidiary. As a result, we are unable to determine the appropriateness of the carrying value of the investment in this subsidiary amounting to S$67,790,000 as at 30 June 2021 (Note 16), and whether further impairment, or write-back of impairment, if any, is necessary."

<u>Board's Response</u>

The Board wishes to highlight that the difficulties experienced by the Auditors arose due to a series of organisational and operational restructuring exercises that was undertaken with the intention of streamlining the Group's operational processes. The restructuring exercise resulted in high staff attrition within Golden Point Group Pty Ltd ("**GPG**"), the key operating subsidiary of the Company, including the loss of several key personnel within the finance team who had the relevant background information on the historical financial information of the Group and understand the requirements of an audit.

The Auditors have confirmed to the Audit Committee ("**AC**") that they have received full cooperation from management during the course of the audit. Unfortunately, due to reasons set out above, there were challenges in obtaining and providing the necessary information for the conduct of the audit.

The Group will be undertaking a skills gap assessment of GPG's finance team and will (i) require existing members of the team to undergo the relevant training and/or (ii) recruit new members with the relevant experience or skills set to strengthen the competency of the team.

Whilst there are no significant weaknesses highlighted in the report issued by the Group's internal auditors, all recommendations by the internal auditors will be implemented accordingly. In addition, management will be undertaking a review of the circumstances that led to the Disclaimer of Opinion in the Independent Auditor's Report for FY2021. Where there are weaknesses in the internal control processes, recommendations will be proposed to address these issues and presented to the AC for their consideration and to be implemented thereafter.

In relation to the mine rehabilitation and preservation provision of $8,861,000 as at 30 June 2021 (Note 28), notwithstanding that the amount has been preliminarily assessed to be S$6,780,000, this has yet to be agreed upon and approved by the regulators. As such, the Company has taken the conservative approach of maintaining the current approved provision which is of an amount higher than that based on the preliminary assessment. Adjustments will be made subsequently upon receipt of approvals by the regulators.

2. Going Concern Assumptions

<u>Disclaimer of Opinion</u>

The following section has been extracted from the Independent Auditor's Report and set out in italics below:

"We refer to Note 2.1 to the financial statements with respect to the Group's and Company's ability to continue as going concerns. As at 30 June 2021, the current liabilities of the Group and Company exceeded their current assets by S$7,432,000 and S$47,649,000 respectively. The Group also incurred a net loss of $19,183,000 during the financial year ended 30 June 2021. These factors and other matters disclosed in Note 2.1 to the financial statements indicate the existence of material uncertainties that may cast significant doubt on the Group's and the Company's ability to continue as going concern. As disclosed in Note 2.1 to the financial statements, the directors are of the view that it is appropriate for the financial statements of the Group and of the Company to be prepared on a going concern basis.

As further disclosed in Note 2.1, the ability of the Group and Company to continue as going concern is dependent on its ability to generate positive cash flows from the mining operations assuming that there is sufficient tailings capacity and the availability of sources of financing. However, arising from *the effects of the above and lack of supporting documentation and records, we were unable to obtain sufficient appropriate evidence to conclude on the appropriateness of certain key assumptions used in the cash flow analysis to assess the going concern assumption used in the preparation of the accompanying financial statements.*

Consequently, based on the information available to us, we were unable to determine whether any adjustments might have been found necessary in respect of the aforementioned balances and other elements making up the statements of financial position, consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cashflows for the year financial ended 30 June 2021, and the related disclosures."

<u>Board's Response</u>

The Board is of the view that the use of the going concern assumption in the preparation of the financial statements for FY2021 is appropriate after taking into consideration the following:

(i) the losses incurred by the Group of S$19,183,000 for FY2021 were mainly attributed to the following:

a. the recognition of a fair value loss in relation to S$7,000,000 in principal amount that has been drawn down in respect of the S$10,000,000 in aggregate principal amount of ten percent (10%) unlisted and redeemable convertible bonds due 2022 (the "**Bonds**"), comprising ten (10) tranches with a principal amount of S$1,000,000 for each tranche of such Bonds to be consolidated to form a single series due 24 months after the date of issuance of the first tranche, based on the subscription agreement entered into between the Company and Tomson Pte Ltd on 3 December 2020. The fair value loss amounted to approximately S$6.25 million;

b. the recognition of fair value expenses in relation to the 2,500,000,000 share options ("**Options**"), which carries a right to subscribe for new shares in the capital of the Company at an exercise price of S$0.0028 per share, granted by the Company to Directors and selected key employees of the Group (details of which are set out in the circular issued by the Company dated 2 June 2021). The fair value expenses amounted to approximately S$12.66 million; and

c. the depreciation of Singapore dollar against Australian dollar which resulted in a foreign exchange loss of approximately S$2.94 million.

The abovementioned expenses are non-cash items and/or non-recurring in nature and excluding these expenses, the Group is profitable operationally;

(ii) applications have also been submitted to the relevant authorities for expansion of the capacity of the current tailings storage facilities as well as for the development of alternative storage facilities. In the meantime, it is determined that, based on internal assessments and the current volume of processing, there is sufficient capacity of tailings storage facilities to cater to the operational needs of the Group for the next 2 years;

(iii) based on the cash flow forecast, the Group is able to generate positive cash flows from the mining operations, which supports the Management's assessment that the Group and the Company will be able to continue as going concerns, including consideration of plausible downside scenarios;

(iv) availability of sources of financing that the Company can tap on and channel towards meeting its financial obligations if and when required, including:-

a. an aggregate in principal amount of up to S$3,000,000 of Bonds remains available for drawdown at the Company's discretion;

b. up to S$7,000,000 in gross proceeds to be received in the event of an exercise of the 2,500,000,000 Options that are currently in issue; and

c. raising funds from the debt and capital markets; and

(v) management's plans to undertake periodic assessments in relation to the Group's operations and where appropriate seek improvements in productivity and manage cost efficiency of the Group's operations.

In view of the above, the directors of the Company believe that the Group and the Company will be able to generate sufficient positive cash flows to meet the operating requirements of the Group's operations and to pay their debts as and when they fall due. As such, the Directors have determined that it is appropriate for the Group and the Company to adopt the going concern assumption in preparing the financial statements.

The Board is of the view that sufficient information has been disclosed for trading of the Company's securities to continue in an orderly manner and confirmed that all material disclosures have been provided for trading of the Company's shares to continue.

The Independent Auditors' Report and a complete set of the Financial Statements will also be contained in the Company's Annual Report for FY2021 ("**FY2021 Annual Report**"), which will be released on SGXNET on 15 November 2021. Shareholders of the Company are advised to read this announcement in conjunction with the FY2021 Annual Report.

Shareholders of the Company are advised to exercise caution when dealing in the shares of the Company. Persons who are in doubt as to the action they should take should consult their stockbrokers, bank managers, solicitors, accountants or other professional advisers

BY ORDER OF THE BOARD

Yao Liang
Executive Director
15 November 2021

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*This announcement has been prepared by the Company and its contents have been reviewed by the Company's sponsor, W Capital Markets Pte. Ltd. (the "**Sponsor**").*

*This announcement has not been examined or approved by the Singapore Exchange Securities Trading Limited (the "**SGX-ST**") and the SGX-ST assumes no responsibility for the contents of this announcement, including the correctness of any of the statements or opinions made or reports contained in this announcement.*

The contact person for the Sponsor is Mr Chia Beng Kwan, Registered Professional, W Capital Markets Pte Ltd, 65 Chulia Street, #43-01 OCBC Centre, Singapore 049513, Telephone (65) 65133541.

Report on the audit of the financial statements

Disclaimer of Opinion

We were engaged to audit the financial statements of Shen Yao Holdings Limited (the Company) and its subsidiaries (collectively, the Group), which comprise the statements of financial position of the Group and Company as at 30 June 2021, and the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group 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 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

Insufficient supporting documentation and records

A subsidiary company of Group operating a mine in Australia has capitalised expenditures relating to its mining properties (Note 14) amounting to S$15,852,000 and inventories (Note 19) of $4,991,000 (comprising both ore and gold inventories) in the consolidated statement of financial position as at 30 June 2021. The Group was unable to provide computations and reconciliations to demonstrate the basis of the allocation of costs between mining properties, ore and gold inventories due to the loss of several key personnel. The Group also has mine rehabilitation and preservation provision of $8,861,000 as at 30 June 2021 (Note 28). Subsequent to the year end, an independent rehabilitation liability assessment was requested by the mining regulators to be undertaken of which the provision amount was preliminarily assessed to be S$6,780,000. We have not been provided a reconciliation for this difference. As a consequence, we are unable to obtain sufficient appropriate audit evidence to assess the appropriateness of the carrying values of the mining properties, inventories and rehabilitation and preservation provision reflected in the consolidated statement of financial position as at 30 June 2021; and the consequential effect on mining costs and other related expenses recorded in the consolidated statement of profit or loss for the year.

In addition, supporting documents and/or sufficient explanations were also not provided to us to complete the audit of the balances relating to other current assets (Note 18), property, plant and equipment (Note 12), trade and other payables (Note 22), deferred consideration (Note 27) and income tax payable. Accordingly, we are unable to obtain sufficient appropriate audit evidence to determine the appropriateness of these balances in the consolidated statement of financial position as at 30 June 2021 and their corresponding effects in the consolidated statement of profit or loss.

Furthermore, the abovementioned matters have impacted our ability to assess the reasonableness of certain key assumptions (such as, operating costs and replacement capital expenditure) used by management in their value-in-use calculations for the impairment assessment on the Company's investment in the relevant subsidiary. As a result, we are unable to determine the appropriateness of the carrying value of the investment in this subsidiary amounting to S$67,790,000 as at 30 June 2021 (Note 16), and whether further impairment, or write-back of impairment, if any, is necessary.

Going concern assumptions

We refer to Note 2.1 to the financial statements with respect to the Group's and Company's ability to continue as going concerns. As at 30 June 2021, the current liabilities of the Group and Company exceeded their current assets by S$7,432,000 and S$47,649,000 respectively. The Group also incurred a net loss of S$19,183,000 during the financial year ended 30 June 2021. These factors and other matters disclosed in Note 2.1 to the financial statements indicate the existence of material uncertainties that may cast significant doubt on the Group's and the Company's ability to continue as going concern. As disclosed in Note 2.1 to the financial statements, the directors are of the view that it is appropriate for the financial statements of the Group and of the Company to be prepared on a going concern basis.

Report on the audit of the financial statements (cont'd)

Basis for Disclaimer of Opinion (cont'd)

Going concern assumptions (cont'd)

As further disclosed in Note 2.1, the ability of the Group and Company to continue as going concern is dependent on its ability to generate positive cash flows from the mining operations assuming that there is sufficient tailings capacity and available sources of financing. However, arising from the effects of the above and lack of supporting documentation and records, we were unable to obtain sufficient appropriate evidence to conclude on the appropriateness of certain key assumptions used in the cash flow analysis to assess the going concern assumption used in the preparation of the accompanying financial statements.

Consequently, based on the information available to us, we were unable to determine whether any adjustments might have been found necessary in respect of the aforementioned balances and other elements making up the statements of financial position, consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cashflows for the year financial ended 30 June 2021, and the related disclosures.

Other matter

The financial statements of Shen Yao Holdings Limited for the period from 1 April 2019 to 30 June 2020, were audited by another auditor who expressed an unmodified opinion with the inclusion of a material uncertainty related to going concern paragraph on those statements on 30 September 2020.

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 Singapore Financial Reporting Standards (International) (SFRS(I)), 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 responsibility is to conduct an audit of the financial statements in accordance with Singapore Standards on Auditing and to issue an auditor's report. However, because of the matter 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, in the view of the significance of the matters referred to in the Basis for Disclaimer of Opinion section of our report, we do not express an opinion on whether the accounting and other records required by the Act to be kept by the Company has 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 Vincent Toong Weng Sum.

Ernst & Young LLP
Public Accountants and
Chartered Accountants

Singapore
15 November 2021

1. Corporate information

Shen Yao Holdings Limited (the Company) is an exempt company with limited liability under the Companies Act 1981 of Bermuda. On 30 December 2020, the Company re-domiciled to Singapore as a public company limited by shares, registered by way of transfer of registration under Section 359(1) of the Singapore Companies Act (Cap.50).

The registered office is located at 9 Temasek Boulevard, #24-01 Suntec Tower 2, Singapore 038989. The shares of the Company are listed on the Singapore Exchange Securities Trading Limited.

The Company's immediate and ultimate holding company is Yaoo Capital Pte. Ltd., incorporated and domiciled in Singapore.

The principal activities of the Company are those of investments, investment holding and strategic investments and other related activities. The principal activities of the subsidiaries are disclosed in Note 16 to the financial statements.

With effect from 30 December 2020, the name of the Company was changed from LionGold Corp Ltd to Shen Yao Holdings Limited.

2. Summary of significant accounting policies

2.1 Basis of preparation

The consolidated financial statements of the Group and the statement of financial position and statement of changes in equity of the Company have been prepared in accordance with Singapore Financial Reporting Standards (International) (SFRS(I)).

The financial statements have been prepared on the historical cost basis except as disclosed in the accounting policies below.

The financial statements are presented in Singapore Dollars ($ or SGD) and all values in the tables are rounded to the nearest thousand ($'000), except when otherwise indicated.

Going concern assumptions

The financial statements of the Group and Company have been prepared on a going concern basis.

As at 30 June 2021, the current liabilities of the Group and Company exceeded their current assets by $7,432,000 (2020: net current assets of $1,164,000) and $47,649,000 (2020: $47,109,000) respectively. The Group also incurred a net loss of $19,183,000 (2020: net profit $859,000) during the financial year ended 30 June 2021.

The abovementioned 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.

The Board is of the view that the use of the going concern assumption in the preparation of the financial statements for FY2021 is appropriate after taking into consideration the following:

(i) the losses incurred by the Group of $19,183,000 for FY2021 were mainly attributed to the following:

a. the recognition of a fair value loss in relation to $7,000,000 in principal amount that has been drawn down in respect of the $10,000,000 in aggregate principal amount of ten percent (10%) unlisted and redeemable convertible bonds due 2022 (the "**Bonds**"), comprising ten (10) tranches with a principal amount of $1,000,000 for each tranche of such Bonds to be consolidated to form a single series due 24 months after the date of issuance of the first tranche, based on the subscription agreement entered into between the Company and Tomson Pte Ltd on 3 December 2020. The fair value loss amounted to approximately $6.25 million;

2. Summary of significant accounting policies (cont'd)

2.1 Basis of preparation (cont'd)

Going concern assumptions (cont'd)

b. the recognition of fair value expenses in relation to the 2,500,000,000 share options ("**Options**"), which carries a right to subscribe for new shares in the capital of the Company at an exercise price of $0.0028 per share, granted by the Company to Directors and selected key employees of the Group (details of which are set out in the circular issued by the Company dated 2 June 2021). The fair value expenses amounted to approximately $12.66 million; and

c. the depreciation of Singapore dollar against Australian dollar which resulted in a foreign exchange loss of approximately $2.94 million.

The abovementioned expenses are non-cash items and/or non-recurring in nature and excluding these expenses, the Group is profitable operationally;

(ii) applications have also been submitted to the relevant authorities for expansion of the capacity of the current tailings storage facilities as well as for the development of alternative storage facilities. In the meantime, it is determined that, based on internal assessments and the current volume of processing, there is sufficient capacity of tailings storage facilities to cater to the operational needs of the Group for the next 2 years;

(iii) based on the cash flow forecast, the Group is able to generate positive cash flows from the mining operations, which supports the Management's assessment that the Group and the Company will be able to continue as going concerns, including consideration of plausible downside scenarios;

(iv) availability of sources of financing that the Company can tap on and channel towards meeting its financial obligations if and when required, including:-

a. an aggregate in principal amount of up to $3,000,000 of Bonds remains available for drawdown at the Company's discretion;

b. up to $7,000,000 in gross proceeds to be received in the event of an exercise of the 2,500,000,000 Options that are currently in issue; and

c. raising funds from the debt and capital markets; and

(v) management's plans to undertake periodic assessments in relation to the Group's operations and where appropriate seek improvements in productivity and manage cost efficiency of the Group's operations.

In addition, as disclosed in Note 3 to the financial statements, the Company and one of its subsidiaries were served notices by the Commercial Affairs Department ("**CAD**") of the Singapore Police Force in April 2014 in relation to an investigation into an offence under the Securities and Futures Act, Chapter 289. As the CAD has not provided details of its investigation, management was and still is unable to ascertain (i) whether the investigation would have an impact on the Group's and the Company's ongoing business operations; and (ii) the impact of adjustments that may arise from the investigation, if any, on the financial statements.

After considering the measures and mitigating actions described above, the directors of the Company believe that the Group and the Company will be able to generate sufficient positive cash flows to meet the operating requirements of the Group's operations and to pay their debts as and when they fall due. As such, the Directors have determined that it is appropriate for the Group and the Company to adopt the going concern assumption in preparing the 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 or realise their assets in the normal course of business. Adjustments may have to be made to reflect the situation that assets may need to be realised at amounts which could differ from the amounts at which they are currently recorded in the statement 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 in the financial statements.