



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

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**RESPONSE TO SGX QUERIES ON THE COMPANY'S ANNOUNCEMENT DATED 15 NOVEMBER 2021 IN RELATION TO THE DISCLAIMER OF OPINION BY THE AUDITORS OF THE COMPANY ON THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2021**

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*Capitalised terms in this announcement shall have the same meanings as ascribed to them in the Company's announcement released on 15 November 2021 in relation to the Disclaimer of Opinion by the Auditors on Financial Statements for FY2021 (the "Announcement"), unless otherwise defined.*

Shen Yao Holdings Limited (the "**Company**") and together with its subsidiaries, the "**Group**") has received the following queries from the Singapore Exchange Securities Trading Limited (the "**SGX Queries**") in relation to the Announcement.

The board of directors (the "**Board**") of the Company has provided the following responses to the SGX Queries.

**SGX Query 1:**

The auditor noted that 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 its FY2021 balance sheet and 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 (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. The auditors have not been provided a reconciliation for this difference.

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.

- (a) Please elaborate on the 'loss of several key personnel' and disclose specific persons who had departed from the Company or whose roles were affected by the restructuring. Why and how did the loss of these key personnel cause the Group to not be able to provide computations and reconciliations to demonstrate to the auditors the basis of allocation of costs between the mining properties, ore and gold inventories, resulting in the auditors issuing a disclaimer of audit opinion? Please make reference to the cessation announcements as appropriate, if relevant.
- (b) Is the Company's finance team appropriately and adequately staffed? Please elaborate on the size and experience of the team. Did the auditors experience the above difficulties as a result of its finance team?

**Response:**

(a) The following key finance personnel left the employ of the Company and/or ceased to be involved in the finance function of the Group during the last 6 months which happened to coincide with the period leading up to and during the preparation of the FY2021 financial results and the financial audit for FY2021:

- Deputy Chief Executive Officer and Financial Controller who left the Group in August 2021
- Chief financial officer of GPG (“**GPG CFO**”) who left his role and ceased to be involved in the finance function of GPG in June 2021 and subsequently left the Group in September 2021
- Cost control and audit manager of GPG (“**Audit Manager**”) who left the Group in August 2021

GPG is the Company’s subsidiary in Australia which operates the Group’s gold mining operations. The abovementioned individuals were key coordinators of the audit process in the previous financial year.

In particular, the Audit Manager has been with the Group for 4 years and is familiar with the requirements of an audit as well as the internal process of the Group. As such, he was able to procure information and documentation required from the relevant departments and personnel within GPG and communicate such information and documents to the Auditors in an organised and efficient manner. His responsibilities prior to his departure, in addition to coordinating the audit process included reconciliations, preparation of financial reports and budgeting.

As the departure of the GPG CFO and the Audit Manager happened within a short span of time during the course of the audit and the Company had waived the requirement for both individuals to serve a notice period (due mainly to the sensitive nature of their job scope), there was a lack of handover of certain background information and responsibilities. Consequently, information on historical financial was not being properly communicated and documented prior to their departure. In addition, the rest of the finance team had difficulties understanding the requirements and fulfilling the information requests of the Auditors as they did not have any experience liaising with Auditors on audit matters.

The cessation of the Deputy Chief Executive Officer and Financial Controller was announced on 25 August 2021. Neither the GPG CFO nor the Audit Manager were executive officers of the Company. As a such, no cessation announcement was made in relation to their departure.

(b) The finance team currently comprises 4 employees, who have been with the Group for between less than 1 year and 10 years. The finance manager in GPG has a Master’s in Accounting and has been with the Group for about 1 year 8 months. The finance superintendent in GPG is a Chartered Public Accountant and has been with the Group for about 1 year 4 months.

The Company has yet to fill the gaps following the departure of the GPG CFO and the Audit Manager. The staffing issues and inadequacy in terms of experience as a result of the departure of the GPG CFO and the Audit Manager was made apparent during the course of the audit.

**SGX Query 2:**

**In addition, supporting documents and/or sufficient explanations were also not provided to the auditors 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. The Group will be undertaking a skills gap assessment of GPG’s finance team.**

(a) **Please explain why the finance team were unable to provide the auditors with supporting documents and/or sufficient explanations on the above-mentioned financial statement line items?**

- (b) **Has there been recent departures in the finance team? If so, please elaborate.**
- (c) **Please elaborate on what is the skills gap assessment and how will it be conducted.**

**Response:**

- (a) As set out in the response to Query 1 above, the GPG CFO and the Audit Manager were primarily responsible for attending to the requirements of Auditors prior to their departure. With their departure at a short notice, such responsibilities were not sufficiently handed over to the rest of the finance team, resulting in difficulties in the coordination of the audit process which includes facilitating information requests between the Auditors and the relevant departments within the organisation. While the team had provided full cooperation to the Auditors during the course of the audit, they generally required a longer time to respond to the Auditor's requirements. Consequently, the finance time team was not able to collate and compile the supporting documents and/or provide sufficient explanations on the above-mentioned financial statement line items information that Auditors had requested within the timeline for completion of the audit.
- (b) Please refer to response to Query 1.
- (c) With reference to the internal requirements of the organisation, along with the requirements and process of the audit that was just concluded for FY2021, management will be able to identify the required level of expertise and experience as well as qualifications the team should possess.

Management will then assess the expertise and experience as well as qualifications of the current team to determine where the skill and experience gaps are and will then (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 and qualifications to strengthen the competency of the team. Such assessment is expected to be completed by the first quarter of 2022.

**SGX Query 3:**

**Who is the Company's internal auditor and please disclose the scope of internal audit and key findings. Please disclose the Audit Committee's assessment and opinion, with supporting justifications, on effectiveness and adequacy of internal controls (including financial, operational, compliance and technology controls) and risk management systems.**

**Response:**

The internal audit function of the Group was outsourced to an independent audit firm, Deloitte & Touche Enterprise Risk Services Pte Ltd (the "**Internal Auditors**").

The audit focus areas are set out below.

<b>Audit Area</b>	<b>Audit Focus Areas</b>
Investment and Trading Operations	<ul style="list-style-type: none"> <li>• Policies and procedures on investments and divestments.</li> <li>• Investment mandate and portfolio management.</li> <li>• Investment due diligence, approval documentation, execution and monitoring.</li> <li>• Pricing and valuation.</li> <li>• Investment monitoring and reporting.</li> <li>• Trade confirmation and settlement.</li> </ul>

<b>Audit Area</b>	<b>Audit Focus Areas</b>
GPG Procurement and Payment (including fuel management)	<ul style="list-style-type: none"> <li>• Procurement requisition and approval as well as contract signatories are in accordance with the Delegation of Authority.</li> <li>• Timeliness of delivery of purchases.</li> <li>• Monitoring utilisation of key contracts (e.g. provision of drilling services)</li> <li>• Evaluation and monitoring performance of key vendors (e.g. drilling contractors) in relation to contract obligations.</li> <li>• Monitoring fuel consumption and re-ordering levels.</li> <li>• Verification and approval of invoices before payment.</li> <li>• Payments and payables are recognised accurately and timely.</li> </ul>
GPG Tenement Management	<ul style="list-style-type: none"> <li>• Registration of licenses, permits or titles with the State.</li> <li>• Obligations / conditions under the tenement are tracked and adhered to (e.g. rent, reporting obligations, restrictions on amount of minerals that can be extracted, permitted coverage, period of license, etc.)</li> <li>• Monitoring and reporting of overdue tenement actions.</li> <li>• Tracking and monitoring of compensation payments to landholder.</li> <li>• Lodging of security deposits.</li> <li>• Due diligence and approval process to apply for new mining tenements / renewal of existing mining tenements.</li> <li>• Tenement surrender.</li> </ul>
Follow-up Review	<ul style="list-style-type: none"> <li>• Perform follow-up review on the status of implementation of action plans based on the previous Internal Audit Report issued.</li> </ul>

The key audit findings are set out below.

<b>Audit Findings</b>	<b>Rating</b>	<b>Recommendation</b>
<b>Investment and Trading Operations</b>		
Approval authority for investments below S\$1,000,000 not defined	<b>Low</b>	Management should formalise the approval authority for investment amounts below S\$1,000,000.
<b>GPG Procurement and Payment; and Tenement Management</b>		
Limited formalised policies and procedures exist for core business functions assessed	<b>Medium</b>	<ol style="list-style-type: none"> <li>1. GPG should develop end to end process maps for each of the core business functions described.</li> <li>2. For the policies which are in draft form, Management should formalise, implement and communicate those to the wider business.</li> <li>3. Upon completion of the process map development, GPG should then establish policies and procedures that are aligned to each of processes noted in this finding.</li> </ol>
Key person dependencies exist within the organisation	<b>Low</b>	Management should review the current organisational resource model and ensure alignment of personnel, roles and activities throughout each of the business functions.
Outstanding bond payments with mining regulators	<b>Low</b>	GPG should liaise with management and relevant authorities to develop a plan centred on recuperating the outstanding bonds with mining regulators and defining an acceptable rehabilitation bond value for Tenement MIN4756 with the intention of undertaking exploration activities.
Absence of key supplier and contract monitoring	<b>Low</b>	Management should implement a formal, periodic review of key contracts and supplier performance. Management should also develop a key supplier/ vendor register.

Measures to address the internal controls weaknesses identified by the Internal Auditors is expected to be implemented by March 2022.

For FY2021, the Board has received assurance from the Group Chief Executive Officer and the Finance Manager that (i) the financial records have been properly maintained and the financial statements give a true and fair view of the Group's operations and finances, and (ii) the Group's risk management and internal control systems are operating effectively in all material aspects given its current business environment.

Further, management will be undertaking a review of the circumstances that led to the Disclaimer of Opinion by the Auditors on Financial Statements 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.

Based on the internal controls established and maintained by the Group, work performed by the Internal Auditors and reviews performed by management, the AC is of the opinion that the Group's internal controls addressing financial, operational, compliance and information technology controls, and risk management systems, are effective and meets the needs of the Group in its current business environment.

**SGX Query 4:**

**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. When will the application outcome be known to the Company? What is the impact on the Company in the event of a successful or unsuccessful application?**

- (a) **In the announcement, the Company stated 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.**

Shen Yao Holdings' subsidiary company Golden Point stated on its website (<https://ballaratgoldmine.com.au/whitehorse-gully-tsfp/>) that the mines tailings storage facility is expected to reach its capacity by the end of 2021.

**Please explain the discrepancy.**

- (b) **When will the application outcome be known to the Company?**
- (c) **What is the impact on the Company in the event of a successful or unsuccessful application? Will an unsuccessful application to expand the capacity of the tailings storage facilities affect the going concern of the Company? Please explain.**

**Response:**

- (a) The information on GPG's website is outdated. Since the publication of the information on the website, GPG has completed an expansion of capacity of current facilities and there is currently sufficient capacity of tailings storage facilities to cater to the operational needs of the Group for the next 2 years. The conflicting information will be removed from the website.
- (b) This application is being processed by the Earth Resources Regulation and the Company has not received any firm indication on timing of the outcome of such application. However, barring any unforeseen issues, the Company is hoping to be able to receive approval before the end of 2021.
- (c) In the unlikely event that approvals are not obtained, this limitation in terms of the capacity of the current tailings storage facility is not expected to affect the going concern of the Company as adjustments can be made to the operational strategy as follows to ensure continuity in terms of operations:
- (i) expediting plans for the construction of a new tailings dam which is expected to accommodate storage of tailings for an additional 10 years;

- (ii) re-mining product from the existing tailings dam facility, which exhibits economically viable mineralization in its composition; and
- (iii) processing higher grade ore to maximise gold recovery whilst minimizing waste outputs.

**SGX Query 5:**

**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 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.**

**The Company stated in para 2(i) that the expenses mentioned are non-cash items and/or non-recurring in nature and excluding these expenses, the Group is profitable operationally.**

**Sources of financing that the Company can tap on and channel towards meeting its financial obligations include:- principal amount of up to S\$3,000,000 of Bonds remains available for drawdown. Exercise of options amounting to S\$7,000,000 in gross proceeds is at the option holders' discretion.**

- (a) **How else does the Company intend to address the current liabilities of the Group and Company if they come due during the year?**
- (b) **Did the auditors review the cash flow forecast and assumptions adopted? What are the auditors' views and justifications on the reasonableness of the assumptions?**
- (c) **Please provide the Board of Directors' assessment of the Group's ability to continue operating as a going concern and the bases for the said assessment.**

**Response:**

- (a) The Company may also consider a rights issue or placement of shares to raise additional working capital for the Group if necessary. Further, we wish to highlight that a significant portion of the current liabilities of the Company (amounting to approximately S\$50.6 million as at 30 June 2021) are amounts due to subsidiaries. Disregarding these amounts due to subsidiaries, the Company's working capital as at 30 June 2021 would be approximately S\$3.0 million.
- (b) The Auditors had reviewed the cash flow forecast and assumptions adopted by the Group. However, arising from the lack of supporting documentation and records, the Auditors were unable to obtain sufficient appropriate evidence to conclude on the appropriateness of certain key assumptions used in the cash flow analysis.

Shareholders are advised to read the Independent Auditors' Report and the FY2021 Annual Report in its entirety.

- (c) The Board noted that the Group had generated strong cash flows from operating activities of S\$25.9 million and S\$21.0 million in FY2021 and FY2020 respectively. For the 3-month period from 1 July 2021 to 30 September 2021 (being the first quarter of the current financial year ending 30 June 2022), the Group generated cash flows from operating activities of S\$5.1 million. Further, based on the Group's cash flow forecast, the Group is able to generate positive cash flows from the mining operations to fulfil the payment of current liabilities as and when they fall due. In view of the foregoing, the Board believes 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 are of the view that the Group is able to continue operating as a going concern.

**SGX Query 6:**

**Please provide the Board of Directors' opinion as to whether trading of the Company's shares should be suspended pursuant to Listing Rule 1303(3) (Going Concern) and the basis for such opinion.**

**Response:**

For reasons set out in the Announcement and in this response, the Board is of the view 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. In addition, sufficient information has been and will continue to be disclosed for the trading of the Company's shares to continue in an orderly manner.

Accordingly, the Board is of the view that no suspension of trading of the Company's shares pursuant to Listing Rule 1303(3) (Going Concern) is required.

**SGX Query 7:**

**Please provide the Board of Directors' confirmation as to whether sufficient information has been disclosed to enable trading of the Company's shares to continue in an orderly manner and the bases for its views.**

**Response:**

To the best of their knowledge of the Board, all material disclosures have been disclosed and will continue to be provided to shareholders in a timely manner. In view of the foregoing, the Board confirms that sufficient information has been disclosed for the trading of the Company's shares to continue in an orderly manner.

**SGX Query 8:**

**Please confirm if the Company has received any letters of demand thus far?**

**Response:**

As at the date of this announcement, the Board confirms that there are no outstanding letters of demand.

**BY ORDER OF THE BOARD**

Yao Liang  
Executive Director  
18 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.*