



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

**PROPOSED CHANGE OF AUDITORS FROM ERNST & YOUNG LLP TO BAKER TILLY TFW LLP
- RESPONSE TO SGX QUERIES**

Capitalised terms in this announcement shall have the same meanings as ascribed to them in the Company's announcement released on 4 April 2022 in relation to the Proposed Change of Auditors (the "Previous 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 Proposed Change of Auditors. The board of directors (the "**Board**") of the Company has provided the following responses to the SGX Queries.

SGX Query 1:

The main reason cited for the change in auditors is due to difficulties experienced by EY during the course of the audit. The key operating subsidiary of the Company in Australia, Golden Point Group Pty Ltd ("GPG"), experienced high staff attrition, including the loss of several key personnel within the finance team during the FY2021 audit. This resulted in EY issuing a disclaimer of opinion for the Group's FY2021 audited financial statements due to insufficient supporting documents and explanations provided to EY.

- (a) **Please elaborate on the "difficulties experienced by EY during the course of the audit".**
- (b) **How many finance staff are there in the Group's finance team? What are the Board's and Management's plans to ensure that the finance team is adequately resourced?**
- (c) **Please provide details on why insufficient supporting documents and explanations were provided to EY to complete the FY2021 audit.**

Response:

- (a) During the course of the audit, EY experienced difficulties in:
 - (i) procuring information and documentation required for purpose of the audit in an organised and efficient manner; and
 - (ii) obtaining details, insights and documentation in relation to past transactions and existing policies, practices and processes.

As set out in the Company's announcement dated 15 November 2021, the difficulties faced by EY arose due to a series of organisational and operational restructuring exercises that was undertaken with the intention of streamlining the Group's operational processes which led to the loss of several key personnel who had the relevant background information on the historical financial information of the Group and understand the requirements of an audit.

- (b) The finance team currently comprises 4 employees, led by a chief financial officer who was recruited in January 2022 and a finance manager in GPG who has been with the Group for about 2 years.

Management has undertaken a review of the finance team by way of a skills gap assessment. The assessment was concluded as at the end of the first quarter of 2022. The findings, along

with the recommendations from management on ways the competency of the finance team can be strengthened, has been presented to the Board and is gradually being implemented. These recommendations include, amongst others, (i) the recruitment of additional senior members of the team or the engagement of consultants who are experienced in the mining industry, (ii) requirement for the current members of the finance team to undergo training to familiarise themselves with the mining operations of the Group as well as the relevant regulatory requirements that apply to the Group and (iii) requirement that the members of the finance team familiarise themselves with the processes and policies in relation to the operations of the Group.

- (c) As set out in the Company’s announcement dated 15 November 2021, insufficient supporting documents and explanations were provided to EY to complete the FY2021 audit mainly due to the departure of key members of the finance team, who were the key coordinators of the audit process in the previous financial year, during the period leading up to the FY2021 audit.

These individuals who were experienced, had relevant background information on the historical financial information of the Group and understood the requirements of an audit left the organisation due mainly to a series of organisational and operational restructuring exercises that were undertaken with the intention of streamlining the Group’s operational processes.

The departure of many such individuals happened within a short span of time and the Company had waived the requirement for some of these personnel to serve a notice period (due mainly to the sensitive nature of their job scope). As such, there was a lack of handover of certain background information and responsibilities. Consequently, historical financial information and processes were not properly communicated and/or documented prior to their departure. In addition, the remaining members of the finance team had difficulties understanding the requirements and fulfilling the information requests of the Auditors as they lacked in-depth commercial and financial experience in the mining industry and the understanding on the historical knowledge and background as to how the balances in some of the accounts were captured and maintained over the years.

SGX Query 2:

It was stated that “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.”

- (a) **Please provide status update on the above-mentioned plans.**

Response:

Please refer to response to query 1(b) above for details relating to the skills gap assessment.

Steps have been taken towards implementing the recommendations by the internal auditors. The status of implementation is as follows:

Audit Findings	Rating	Recommendation	Status Update on Implementation
Investment and Trading Operations			
Approval authority for investments below S\$1,000,000 not defined	Low	Management should formalise the approval authority for investment amounts below S\$1,000,000.	Completed – the Company’s “Investment Risk Management Policy and Procedures” has been updated in accordance with this recommendation.

Audit Findings	Rating	Recommendation	Status Update on Implementation
GPG Procurement and Payment; and Tenement Management			
Limited formalised policies and procedures exist for core business functions assessed	Medium	<ol style="list-style-type: none"> 1. GPG should develop end to end process maps for each of the core business functions described. 2. For the policies which are in draft form, Management should formalise, implement and communicate those to the wider business. 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. 	In progress – management is in the process of developing, updating and finalising policies for core business functions.
Key person dependencies exist within the organisation	Low	Management should review the current organisational resource model and ensure alignment of personnel, roles and activities throughout each of the business functions.	In progress - management has identified several roles whereby “key person dependencies” exist. The human resource department of GPG has been tasked to liaise with each department to further identify roles exposed to such risk and to gather feedback on how this can be addressed.
Outstanding bond payments with mining regulators	Low	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.	In progress – management is in the process of developing a tenement management policy intended to address, amongst others, this audit finding.
Absence of key supplier and contract monitoring	Low	Management should implement a formal, periodic review of key contracts and supplier performance. Management should also develop a key supplier/ vendor register.	In progress – management is in the process of developing a procurement policy intended to address, amongst others, this audit finding.

Management is targeting to complete implementation of all recommendations by 30 June 2022.

In addition to strengthening the competency of the finance team following the conclusion of the skills gap assessment and the implementation of the recommendations set out therein, management has also, ahead of the Proposed Change of Auditors being effected, commenced discussions with Pitcher Partners, an independent member firm of Baker Tilly International in Australia, on the issues that led to the Disclaimer of Opinion in the Independent Auditor’s Report for FY2021. By doing so, management hopes to be able to address these audit issues in preparation of the upcoming audit.

SGX Query 3:

Baker Tilly was the Company's auditors from Sept 2015 to June 2021, before EY was appointed in June 2021. The Company is now proposing to appoint Baker Tilly for the FY2022 audit (in other words, within a year of changing auditors from Baker Tilly to EY). In the shareholders' circular dated 2 June 2021 for the change in auditors from Baker Tilly to EY, rationale for the change was stated as follows: "The Board believes that the Proposed Change of Auditors will, *inter alia*, enable the Company to benefit from fresh perspectives from different audit firms especially in consideration of the Group's recent diversification into the Investment Business."

- (a) Does the current proposed change to Baker Tilly contradict with the above-mentioned rationale stated by the Company when it sought shareholders' approval in June 2021 for EY to be appointed?**
- (b) For the current proposed change to Baker Tilly, pls identify the proposed partner-in-charge?**
- (c) We draw your attention to Catalist Rule 713(1) which states that an audit partner must not be in charge of more than 5 consecutive audits, and that the audit partner may return after two years. Pls explain how the Company is in compliance with Catalist Rule 713(1).**
- (d) Is the current Proposed Change in Auditors initiated by EY or the Company?**
- (e) Are there other reasons for the Proposed Change in Auditors that should be brought to the attention of the shareholders?**

Response:

- (a) The Board remains of the view that "the Proposed Change of Auditors will, *inter alia*, enable the Company to benefit from fresh perspectives from different audit firms especially in consideration of the Group's recent diversification into the Investment Business."

It was however the departure of the key members of the finance team and the Group's inability to rebuild the core competency of the finance team at short notice that made the transition more challenging than anticipated.

- (b) The engagement partner-in-charge from Baker Tilly will be Mr William Ng Wei Lun. Mr Ng has more than 15 years of audit and assurance experience providing services to a variety of clients, including those in the resources industry. His current and former clients include public listed companies, multinational companies, funds and fund management companies, small and medium-sized companies across a broad spectrum of industries as well as not-for-profit organisations. He also has experience in initial public offerings and due diligence engagements.
- (c) The engagement partner-in-charge when Baker Tilly served as Auditors of the Company for FY2016 to FY2020 was Mr Khor Boon Hong.

The Board is mindful of the requirements under Catalist Rule 713(1) and have taken this into consideration in the Proposed Change of Auditors; hence have identified Mr William Ng to take on the role of engagement partner-in-charge.

- (d) The Proposed Change of Auditors was initiated by the Company; EY, having understood the reasons, expressed its support and agreed to the Proposed Change of Auditors. As disclosed in the Previous Announcement, EY had on 29 March 2022 applied to ACRA to seek ACRA's consent to resign as Auditors of the Company and its Singapore-incorporated subsidiaries. The Resignation Approval is pending consent by ACRA.
- (e) The Company wishes to highlight that one of bases for the disclaimer of opinion by EY in the independent auditor's report was in relation the Company's and the Group's ability to continue as going concerns. As such, to be prudent and as part of the Company's efforts to manage its overall business costs and expenses, the Board has also taken into consideration the fact that the Proposed Change of Auditors would allow the Company to realise some cost savings.

SGX Query 4:

Pursuant to Catalist Rule 712(3), please provide the following:

- (a) confirmation from EY as to whether they are aware of any professional reasons why the new auditors should not accept appointment as auditors of the issuer, and if so, to provide reasons;
- (b) confirmation from the Company as to whether there were disagreements with EY on accounting treatments within the last 12 months, and if so, to provide details;
- (c) confirmation from the Company as to whether it is aware of any circumstances connected with the Proposed Change of Auditors that should be brought to the attention of the shareholders of the issuer;
- (d) specific reasons for the Proposed Change of Auditors, including whether EY, declined to stand for election; and
- (e) Confirmation from the Company that it complies with Rule 712 and Rule 715 or 716 in relation to the appointment of Baker Tilly.

Response:

- (a) EY has confirmed to Baker Tilly, via its professional clearance letter dated 31 March 2022, that it is not aware of any professional reasons why Baker Tilly should not accept the appointment as Auditors;
- (b) the Company confirms that there were no disagreements with EY on accounting treatments within the last 12 months;
- (c) the Company confirms that it is not aware of any circumstances connected with the Proposed Change of Auditors that should be brought to the attention of Shareholders;
- (d) the rationale for the Proposed Change of Auditors is set out in the Previous Announcement with further information provided in the response to query 3(e) above. EY was re-elected as Auditors of the Company's last annual general meeting on 30 November 2021; and
- (e) the Company confirms that it complies with Rules 712 and 715 of the Catalist Rules in relation to the appointment of Baker Tilly as its Auditors.

BY ORDER OF THE BOARD

Yao Liang
Executive Director
12 May 2022

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.

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