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Issuer: Shen Yao Holdings Limited

Stock code: A78

Meeting details:

Date: 30 November 2021

Time: 9.00 a.m.

Due to the current COVID-19 pandemic, SIAS encourage shareholders to participate at AGMs via other means and not to attend any AGM physically. Where the AGM is webcast, they can stay on top of their investments by watching the webcast and submitting their question to the company in advance. Senior citizens should avoid attending AGMs altogether and stay home.

Q1. Would the board/management provide shareholders with greater clarity on the group's mining operations? Specifically:

- (i) **All-in costs:** In FY2021, the group achieved all-in sustaining cost of A\$2,968 per ounce produced in FY2021, which is above the average selling price (ASP) of A\$2,462 per ounce. In FP2020 (15-month from April 2019 to June 2020), the all-in sustaining cost was A\$2,466 per ounce while the ASP was A\$2,246 per ounce. **Would the board/management help shareholders understand the reasons for the high all-in sustaining costs per ounce? Is the gold operation sustainable if the all-in sustaining costs are constantly higher than the ASP? What is management's strategy to improve on the profitability of the gold operations?**
- (ii) **Grade of gold:** What are the reasons that the grade of gold has fallen from 5.7g/t in FY2019 to 4.5g/t in FP2020 and to 4.2g/t in FY2021? Does the group have the necessary expertise (in the senior management team including executive directors) to carry out its gold mining operations safely and efficiently? In addition, on page 113, it was also disclosed that in September 2021 the indirect wholly-owned subsidiary, Balmaine Gold Pty Ltd ("Balmaine"), received two improvement Notices from WorkSafe Victoria, the state's health and safety regulator and manager of Victoria's workers compensation scheme, issued under section 111 of the Occupational Health and Safety Act 2004. The company has also announced that Balmaine has since complied with the Notices.
- (iii) **Exploration:** Can the company provide shareholders with greater clarity on the future exploration plans at the Ballarat Gold Mine and the Tarnagulla Gold Project? What are the estimated exploration costs in FY2022? As shown in the consolidated statement of cash flows, the group's exploration and evaluation expenditure increased from \$3.75 million to \$8.12 million in FY2021 (page 52). **How will the group be funding its exploration?**
- (iv) **Gold price:** What is management's view on the price of gold? How does management manage the volatility in the price of gold?
- (v) **Molybdenum:** In the previous annual report, the company stated that it had begun preliminary assessment on molybdenum exploration. **Can management provide shareholders with an update?**

Q2. The group has also diversified into “Investments & Private Equity” and “Quantitative Hedge Fund” following shareholders’ approval at the Special general meeting held on 30 September 2020.

- (i) **What is the level of oversight by the board on the group’s investments and in the quantitative hedge fund?**
- (ii) **Who is driving the new businesses? What is the track record of management in investments and quantitative hedge fund?**
- (iii) **Has the group established a robust risk management framework to guide management in the new businesses?**
- (iv) **In addition, what are the investment strategy and mandate given to Shen Yao Investments? What are the risk and return parameters used to measure the performance of this segment?**
- (v) **Can the group provide shareholders with more clarity on Plutus Mazu, a “budding” quantitative hedge fund incubated and backed by Shen Yao Holdings? Who are the key investment professionals running the quantitative hedge fund? How did the board assess Plutus Mazu given that it does not appear to have an established track record?**
- (vi) **How much capital has been earmarked for investments, private equity and hedge fund(s)? How will the company be able to fund these investments?**
The auditors have indicated the existence of material uncertainties that may cast significant doubt on the group’s and the company’s ability to continue as going concern. Cash and cash equivalent amounted to \$6.3 million as at 30 June 2021 and the group and the company are in net current liability positions of \$(7.4) million and \$(47.6) million as at 30 June 2021.

Q3. The independent auditors have included a disclaimer of opinion on the financial statements for the financial year ended 30 June 2021. The bases for disclaimer of opinion are “insufficient supporting documentation and records” and “going concern assumptions” (page 42).

For the former, the auditors noted that a subsidiary company of group operating a mine in Australia has capitalised expenditures relating to its mining properties (Note 14) amounting to \$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.

In addition, supporting documents and/or sufficient explanations were also not provided to the independent 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.

Furthermore, the abovementioned matters have impacted the auditor's 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, the independent auditors were unable to determine the appropriateness of the carrying value of the investment in this subsidiary amounting to \$67,790,000 as at 30 June 2021 (Note 16), and whether further impairment, or write-back of impairment, if any, is necessary.

In the company's announcement dated 15 November 2021, it was disclosed 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 announcement by the company can be read here:

https://links.sgx.com/FileOpen/22558439_Announcement_Disclaimer.of.opinion.ashx?App=Announcement&FileID=690972

- (i) **Did the board approve the restructuring exercise at Golden Point Group Pty Ltd?**
- (ii) **If so, should the board/management be experienced enough to manage the impact of the restructuring exercises? What were the efforts by the board/management to mitigate the disruption to the finance team? Did management ensure that proper handing-over/taking-over was done?**

The audit committee currently consists of three directors, namely Mr Pang Kee Chai (as chairman), Mr Sun Shu and Mr Zhan Shu. On page 28, the company has stated that the board is of the view that the members of the audit committee (AC) are appropriately qualified to discharge their responsibilities and they have the requisite accounting or related financial management expertise or experience.

- (iii) **Can the AC, especially the AC chairman, elaborate further on their individual efforts and the AC's effectiveness in the audit of the financial statements?**

- (iv) **Has the AC been effective at discharging its duties? Has the AC's effectiveness been impaired given that all three members of the AC appear to be based in different countries (Singapore, Australia and China), while the main mining operations are in Australia and that the listed company has been redomiciled to Singapore?**

- (v) **How was the AC's review of the group's internal controls (covering financial, operational, compliance and information technology controls, and risk management systems) carried out? On what basis did the AC assess that the group's internal controls were adequate and effective as at 30 June 2021?**

^On 1 October 2020, the Accounting and Corporate Regulatory Authority ("ACRA"), the Monetary Authority of Singapore ("MAS") and Singapore Exchange Regulation ("SGX RegCo") published an updated checklist to guide listed entities on the conduct of general meetings arising from the latest updates from the Multi-Ministry Taskforce.

Issuers may continue to conduct their general meetings held on or before 30 June 2021 via electronic means, and are encouraged to do so. On 9 April 2021, it was announced that the alternate arrangements for meetings ("Meetings Order") would be extend beyond 30 June 2021 until it is revoked or amended by the Ministry of Law. Accordingly, until such time, issuers may continue to utilise the Checklist issued by ACRA, MAS and SGX RegCo to guide entities on the conduct of their general meetings.

Issuers who, after due consideration of public health and other risks, wish to provide for physical attendance at their general meetings must ensure that they implement all relevant measures to comply with the safe management measures imposed by the Singapore Government.

Shareholders are welcome to use and/or adapt the questions prepared by SIAS and to forward them to the company.

Can't attend the AGM or view the webcast? Check out the latest questions on the annual reports of listed companies on [SIAS website](#)

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[^] Guidance on the Conduct of General Meetings Amid Evolving COVID-19 Situation (<https://www.sgx.com/media-centre/20201001-guidance-conduct-general-meetings-amid-evolving-covid-19-situation>)