WORLD PRECISION MACHINERY LIMITED
(Incorporated in the Republic of Singapore)
(Company Registration Number: 200409453N)

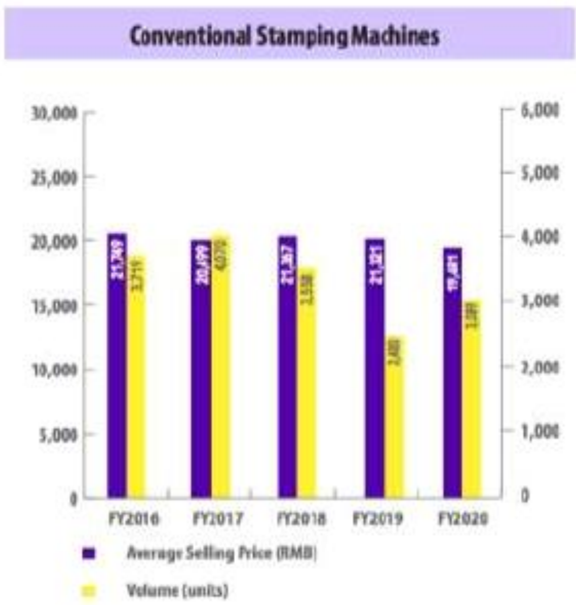
RESPONSES TO QUESTIONS FROM SECURITIES INVESTORS ASSOCIATION (SINGAPORE) OF ANNUAL REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

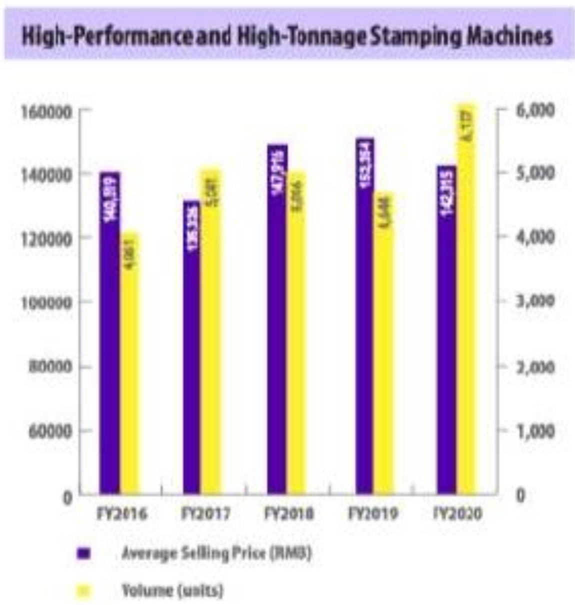
The Board of Directors (the "**Board**") of World Precision Machinery Limited (the "**Company**", and collectively, the Company and its subsidiaries, the "**Group**") refers to the questions raised by the Securities Investors Association (Singapore) ("**SIAS**") in relation to the Company's Annual Report for the financial year ended 31 December 2020 ("**Annual Report 2020**"). The Company's responses and the corresponding questions are set out below:

Q1. As noted in the corporate profile, the automotive, home appliances and consumer electronics sectors accounted for 50%, 30% and 15% of the group's overall revenue respectively. Despite the pandemic, the group's revenue increased by 22.9% to RMB1.03 billion from RMB837.2 million in FY2019 mainly due to the increase in sales volume of the group's conventional stamping machines and high performance and high tonnage (HPHT) stamping machines, partially offset by lower average selling prices.

The group's net profit attributable to equity holders increased by 101.4% year-on-year from RMB20.1 million for FY2019 to RMB40.4 million for FY2020 (earnings per share of 10 RMB cents).

The chairman also noted that there are tailwinds in all the 3 major sectors served by the group. The financial highlight is shown on page 17 of the annual report and the diagrams showing average selling prices and volumes of conventional stamping machines and HPHT stamping machines are reproduced below:





(Source: company annual report)

(i) For the benefit of new shareholders, can management educate shareholders on the difference in applications (and output/products) of the HPHT stamping machines versus the conventional stamping machine?

Company's response to Q1(i)

HPHT stamping machines are high performance and high tonnage stamping machines which have (i) high precision, (ii) high efficiency, and (iii) low noise. Please see below the further explanation on the high performance component:

- High precision stamping machines can be used across a wider range of industries and can increase the yield rate of customers products (that is, lower rate of defective products) and extend a mould's useful life span.
- High efficiency stamping machines allow customers to get more output per unit of time.
- Low noise stamping machines provide customers a better operating experience and increase the useful life of stamping machines.

High performance stamping machines can fulfil the customers' needs to automate their production lines.

The high tonnage stamping machines have a greater stamping capacity of the stamping machine, has larger working tables and greater slider strokes.

The high tonnage stamping machines are mainly used in the automobile and home appliance industries, and in certain cases where multi moulds are required, one high tonnage stamping machine with multi moulds can replace multiple conventional stamping machines using one mould each.

For your ease of reference, please see pages 4, 5, 7, 8, 10, 11, 15 and 16 of the Company's Annual Report 2020 where there are pictures of HPHT stamping machines.

(ii) Who are the main users of the HPHT machines? What is the estimated breakdown by the number of units of HPHT sold to the automotive, home appliances and consumer electronics sectors?

Company's response to Q1(ii)

The Group's high-performance stamping machines are mainly for customers who are seeking to automate their production lines so as to reduce their labour costs. Accordingly, our customers are mainly from the home appliances, electronics, machinery, automobiles and new energy industries.

As China's labour cost are increasing every year, industries are now shifting from manual-intensive manufacturing to automated manufacturing. HPHT stamping machines aim to meet the needs of customers' automated production lines with the combination of robotics and HPHT stamping machines to improve the customers' production efficiency and reduce labour cost. As such, the HPHT stamping machines are mainly for customers in home appliances, electronics, machinery, automobiles and new energy industries. The high tonnage component is mainly for customers in the traditional automobile and new energy automobile industries. The number of units of HPHT stamping machines sold to the automotive, home appliances and electronics sectors is 716 units, 2,969 units and 1,623 units.

(iii) What is the group's estimated market share?

Company's response to Q1(iii)

There is no industry data published by the government of China. The Group's marketing department has computed its estimated market share in the stamping machines industry in China based on the rough statistics data collected. However, the Group will not be able to disclose such information as it is commercially sensitive.

(iv) Is the price of the HPHT machine more volatile than the price of the conventional stamping machines? If so, why is that?

Company's response to Q1(iv)

HPHT stamping machines are usually highly customised to the customers' requirements, and there can be a very broad price range. This is because the specifications of HPHT stamping machines can vary a lot. For example, HPHT stamping machines' pressure tonnage ranges from 500 tons to 2,500 tons. HPHT stamping machines can also be customised to have one, two or four pressure points. The Group designs and sets prices according to the customer's specific requirements. As a result, the models of HPHT stamping machines being produced every year are different, and hence, there are certain price variances from year to year.

(v) What are the utilisation rates of the group's own production facilities?

Company's response to Q1(iv)

For FY2020, the utilisation rates of the Group's own production facilities was approximately 74%.

Separately, personnel expenses increased by 37.8% to RMB 211.7 million in FY2020 (page 112 – Personnel expense), outpacing the increase in revenue (22.9%). This is primarily due to increases in sales commission, number of sales personnel and rebate to suppliers.

(vi) Can management provide additional colour on the spike in personnel expenses? Will management be exercising prudence by aligning compensation that is commensurate to the group's growth?

Company's response to Q(vi)

The main reasons for the increase in wages are as follows:

1. The Group's sales policy has increased the sales commission slightly in 2020 compared to 2019;

2. According to statistics, the average wage in Jiangsu Province, China has increased by 9.4% every year;

3. Due to an increase in orders, the Group recruited some apprentices which increased apprentices salaries; and

4. Previously, some machine parts were commissioned for external processing, but machine parts such as balance bar and processing of gear grinding are now processed by the Group internally.

Q2. From Note 31 (page 125 – Capital management), the group has reported net debts of RMB 564.0 million and adjusted equity of RMB 895.3 million. The net debt to adjusted equity ratio is 0.63x as at 31 December 2020, up from 0.52x a year ago.

The group manages capital by monitoring the level of net debt and capital. Net debt is calculated as total liabilities less cash and cash equivalents while capital includes equity attributable to the equity holders of the company less the statutory reserves and capital reserve.

(i) Has the board set an internal limit on the group's leverage?

Company's response to Q2(i)

The Board has not set an internal limit on the Group's leverage. However, the Board monitors the Group's leverage closely.

As can be seen from the statements of financial position (page 73), inventories remained steady at RMB 376-378 million despite the increase in revenue. Trade and other receivables increased significantly from RMB 195.5 million to RMB 330.8 million as at 31 December 2020. In Note 8 (page 102 – Trade and other receivables), it can be seen that bills receivables increased significantly from RMB 75.5 million to RMB 201.6 million (reproduced below).

8. Trade and other receivables

	Group		Company	
	2020	2019	2020	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables	125,670	110,119	–	–
Less: allowance for expected credit losses	(29,413)	(21,920)	–	–
	96,257	88,199	–	–
Bills receivables	201,560	75,491	–	–

(Source: company annual report)

(ii) Can management help shareholders understand the reasons for the significant increase in bills receivables? The increase is disproportionally larger than the increase in revenue.

Company's response to Q2(ii)

The bills receivables refer to the bank acceptance bills issued by customers' banks, and which are commonly used by our customers to settle our invoices. These bank acceptance bills are accepted and paid by the issuing banks at maturity. As a result of our increase in revenue and our customers increasing the use of bills receivables to settle our invoices instead of using cash to do so, bills receivables have increased significantly and this increase is disproportionately larger than the increase in revenue.

(iii) Has management experienced slower collections due to the pandemic?

Company's response to Q2(iii)

In China, bills receivables, which are bank acceptance bills, are guaranteed by the issuing banks, so the risk of bills receivables not being collectible when due is very low. If the bills receivables are excluded from the Group's account receivables, its trade receivables in FY2020 when compared to FY2019, will only reflect a small increment. The growth rate of the Group's revenue is higher than the growth rate of its trade receivables, and there is no slowdown in the rate of collection of its trade receivables.

(iv) What are management's efforts to improve on the collection of trade receivables and bill receivables?

Company's response to Q2(iv)

The Group is satisfied with its current account receivables management system, but the management continues to monitor the adequacy and robustness of the account receivables management system.

Q3. On 15 April 2021, the company announced that there are material variances between the unaudited financial statements and the audited financial statements for the financial year ended 31 December 2020 following the finalisation of audit.

The announcement on unaudited financial results for the financial year ended 31 December 2020 was first released via SGXNet on 1 March 2021. The announcement on material variance came more than 6 weeks after the company first announced the unaudited financial statements.

Some of the changes that were made following the finalisation of audit include:

- tax expense: from RMB(3.8) million (tax expense) to RMB47,000 (tax credit)
- profit after tax: improved by RMB3.86 million
- trade and other receivables: decreased by RMB(11.7) million
- assets held for sale: increased by RMB11.8 million

- reclassification of interest expense of RMB787,000 from financing activities to
- operating activities due to nature of activities

(i) What were the (human/organisation) factors in the financial reporting process that led to the material adjustments to the unaudited financial statements following the finalisation of audit?

Company's response to Q3(i)

Due to the pandemic and travel restrictions imposed, the completion of the audit was disrupted. Accordingly, the Company has stated that the figures have not been audited or reviewed by the auditors when the unaudited result was announced on 1 March 2021. The preparation of financial statements involves significant use of estimates and judgements. In particular, the finalisation of the tax provision figures are subjected to clarifications from the relevant tax authority and the completion of the China's local statutory financial statements.

(ii) Is the group and its officers familiar with the Singapore Financial Reporting Standards (International) (SFRS(I))?

Company's response to Q3(ii)

The Group and its officers having financial reporting responsibilities are familiar with the Singapore Financial Reporting Standards (International) (SFRS(I)).

(iii) How can shareholders get assurance from management that the financial statements are prepared in accordance with the relevant Act and financial reporting standards?

Company's response to Q3(iii)

For the past 15 years since listing in SGX, the Group has unqualified audit opinion for each of its financial years, it is a testimonial to the Group's continued compliance with the financial reporting standards, and this is an assurance to the shareholders.

(iv) Has the audit committee (AC) evaluated if the internal financial reporting/finance team is sufficiently resourced with experienced and qualified staff to ensure the integrity of the financial statements?

Company's response to Q3(iv)

Please refer to the pages 37 to 41 of the Annual Report for FY2020.

(v) What changes have been made/will be made to the group's financial reporting systems and processes?

Company's response to Q3(v)

The Group is satisfied with its current financial reporting systems and processes, but the management continues to monitor the adequacy and robustness of the systems and processes.

By Order of the Board

Shao Jianjun
Executive Chairman
30 April 2021