SHANGHAI TURBO ENTERPRISES LTD.

(Company Registration No.: CT-151624)
Incorporated in the Cayman Islands

RESPONSES TO QUERIES FROM THE SGX-ST

The Board of Directors (the "**Board**") of Shanghai Turbo Enterprises Ltd. (the "**Company**", together with its subsidiaries, the "**Group**") sets out below the queries raised by the Singapore Exchange Securities Trading Limited ("**SGX-ST**") in relation to the Company's unaudited interim financial statements for the financial period ended 30 June 2023 in respect of the financial year ending 31 December 2023 ("**FY2023**").

Query 1:

Given the Group's significant short-term liabilities of RMB 81,275,000 and cash and bank balance of only RMB 6,072,000 and noting that the Company incurred losses of RMB 4,881,000 in 2Q FY2023, please disclose the Board's assessment (i) whether the Company's current assets are adequate to meet the Company's short term liabilities of RMB 81,275,000, including its bases of assessment; and (ii) how the Company intends to fulfil its significant payment obligations in the next 12 months. Where the Company has worked out debt repayment plans to fulfil its debt obligations, please disclose if the Company is on track to fulfilling these obligations.

Company's Response to Query 1:

(i)The Group's significant short-term liabilities of RMB 81.275 million, including bank loans of RMB 44.5 million, accounts payable of RMB 32.4 million and provision of RMB 4.373 million. Although the bank loan is a short-term loan, the bank generally will renew it after the loan expires, so it's not necessary to repay in the short term at present;

As at 2Q FY2023, the Company's trade and other receivables were RMB 38.51 million, much higher than the Company's accounts payable. At the same time, the Company takes the way of collection discount to communicate with customers to speed up the collection of accounts receivable to ensure that the Company has a stable cash flow.
Provision RMB 4.373 million was served with a notice dated 2017 by the local government agency which required the subsidiary to provide compliance documents relating to its leasehold buildings in accordance with relevant laws and regulations in PRC ("the Notice"). The buildings were constructed in 2003 without obtaining relevant permits from government. The matter is currently at a standstill.

(ii)As replied in (i), Chinese government currently has strong support to the real economy in terms of credit, such as increasing amount and lowering interest rate. It is not necessary to repay the bank loan of RMB 44.5 million in the next 12 months, only need to handle the relevant renewal procedures with banks.

Accounts payable are paid on schedule according to payment terms, there is no risk of financial pressure at present.

Query 2:

We note that the Group's inventories has increased by approximately 115% from RMB 11,582,000 as at 31 December 2022 to RMB 24,832,000 as at 30 June 2023 when its revenue has increased by only 7%. In respect of the above, please provide the following information:

(i) the factors contributing to the significant increase in inventory; and

Company's Response to Query 2(i):

As at 30 June 2023, the Group's inventories is RMB 24.832 million, including raw materials of RMB 3.721 million, goods in process of RMB 15.161 million and finished goods of RMB 5.95 million.

The increase in raw materials is due to the Company purchased raw materials in advance to schedule production, these raw materials will soon be issued for production.

As the Company has many categories of products and different production cycles, there is a big difference between the growth of inventory and sales. That's the reason goods in process increased.

The products have been completed but the Company has not received the delivery notice from customers, that's the reason finished goods increased. Most of finished goods have been sold in Q3 2023.

(ii) the Group's inventory turnover days for the current period as compared to previous corresponding period and elaborate on material variances, if any.

Company's Response to Query 2(ii):

As the Company has many categories of products and different production cycles, there is a relatively large growth in goods in process.

When the products are completed, the Company needs to receive a delivery notice from customers before shipping and recognizing revenue. That's the reason inventories increased.

Query 3:

It is disclosed on page 15 of the unaudited financial statements that 41% of the Company's trade receivables are aged more than 270 days and that “Based on the assessment performed by the management on the current trade receivables, they are still recoverable although payment may be slow, barring any unforeseen circumstances or changes to the business environment and sluggish market conditions.”. Please disclose:

(a) the Company's plans to recover the trade and other receivables;
(b) What were the actions taken to recover the trade and other receivables; and
(c) The Board's opinion on the reasonableness of the methodologies used to determine whether any impairment loss on trade and other receivables is required.

Company's Response to Query 3:

(a) The Company will follow up the accounts receivable according to the terms of contracts signed with customers.
(b) The Company maintains close contact with customers in the normal way, at the same time, the Company also takes the way of collection discount to communicate with customers to speed up the collection of accounts receivable.
(c) The payment method of the Company's main customers is "Banker's acceptance bill" which is a common payment method for domestic business in China. The bill term is generally 180 days (It has to wait for 180 days from receiving the bill to actually receiving cash), it causes the long account receivable period, but there is no risk of bad debts; The Company can pay the suppliers with " Banker's acceptance bill " or can convert it into cash by discounting to speed up the capital turnover. The Company's customer base is mainly state-owned enterprises and overseas enterprises with good credit, there is no risk of bad debts.

Query 4:

It is disclosed on page 20 of the unaudited financial statements that “There are no known subsequent events which have led to adjustments to this set of financial statements.” and that, “The financial effects of the above transaction have not been included in this financial statements for the year ended 30 June 2023. The operating results and assets and liabilities of the company will be reflected in the YTD 2Q FY2023's financial statements and full year financial statements for 2023.”

Please reconcile the two statements above and provide further information on the transaction aforementioned which have not been taken into consideration in the financial statements for the period ended 30 June 2023.

Company's Response to Query 4:

Clarify for "The financial effects of the above transaction have not been included in this financial statements for the year ended 30 June 2023. The operating results and assets and liabilities of the company will be reflected in the YTD 2Q FY2023's financial statements and full year financial statements for 2023" which disclosed on page 20 of the unaudited financial statements, this is an error in the work, this content is not relevant to the report and needs to be deleted.

Query 5:

On page 22 of the unaudited financial statements, it states that "In the Group's latest audited financial statements for the financial year ended 31 December 2020 ("FY2020"), RT LLP ("EA") has issued a disclaimer of opinion in respect of: (i) Going concern assumption; (ii) Impairment testing on property, plant and equipment; (iii) Impairment assessment of investment in subsidiaries; and (iv) Opening balances and comparative figures.".

Please provide an update on the efforts taken by the Company to resolve the EA's disclaimer of opinion in respect of (i) Impairment testing on property, plant and equipment; (ii) Impairment assessment of investment in subsidiaries; and (iii) Opening balances and comparative figures.".

Company's Response to Query 5:

The impairment assessment in the past years was calculated by CFO of the Company, but the audit company thought that the impairment assessment should be performed independently by a third-party appraisal firm, so they had a qualified opinion about the result. In order to eliminate this qualified opinion, the Company has been hiring a third-party firm to perform impairment assessment on the relevant assets this year. The data will be disclosed in FY2022 Annual Report.

Query 6:

It is disclosed on page 13 of the unaudited financial statements that, "No impairment loss is recognised in 2Q FY2023 (2022: Nil), as the Group has estimated the recoverable amount of the land use rights to be higher than the net carrying amount. The recoverable amount of the land use rights was based on its fair value on 31 December 2019." Please explain why the recoverable amount of land use rights was based on its fair value on 31 December 2019 instead of 30 June 2023. Please clarify if the Company has assessed the recoverable value of its land use rights for the financial period ended 30 June 2020, and its basis of assessment.

Company's Response to Query 6:

Since the Company didn't hire a third-party firm after 31 December 2019 to perform the fair value assessment of the land use rights, the recoverable amount of the land use rights was based on its fair value on 31 December 2019. The Company has been hiring a third-party firm to perform impairment assessment on the relevant assets this year, and the assessment dates are 31 December 2020, 31 December 2021 and 31 December 2022.And the Company will hire third-party firm to assess every year.

Query 7:

Listing Rule 704(30) states that the use of the IPO proceeds and any proceeds arising from any offerings pursuant to Chapter 8 as and when such funds are materially disbursed and whether such a use is in accordance with the stated use and in accordance with the percentage allocated in the prospectus or the announcement of the issuer. Where the proceeds are used for general working capital purposes, the issuer must announce a breakdown with specific details on the use of proceeds for working capital. Where there is any material deviation from the stated use of proceeds, the issuer must also announce the reasons for such deviation.

Please provide a breakdown with specific details on the use of proceeds for the working capital as disclosed on page 23 of the unaudited financial statements.

Company's Response to Query 7:

On 27 April 2021, the Company issued the announcement of share placement, raising gross proceeds of approximately SGD1,235,420.92(the "Net Proceeds") equivalent to RMB 5.93 million, about RMB 5.65 million was used to increase the capital of CZ3D. Kindly find the details of capital use as follows:

NO.	Category	Amount(RMB'000)
1	Capital income	5654
2	Interest income	2
Total income		5656
1	Office expenses	4
2	Travel expenses	137
3	Telecommunications	4
4	Meal subsidy	281
6	Water & electricity	1967

7	Network expenses	9
8	Petrol	35
9	Labor compensation cost	73
10	Bonus	45
11	Transportation expenses	28
12	Entertainment expenses	87
13	Purchase of equipment	800
14	Housing provident fund and social security	1357
15	Service charge	0
16	Tax	828
Total expenses		5655

There is no mention of working capital on page 23. The Company's working capital disclosed on page 22 is mainly used to pay salaries, taxes, utilities, suppliers, etc.

With the efforts in recent years, the company's operating performance has improved significantly. Sales in FY2023 are expected to increase by more than 5% compared with FY2022, and losses will be further reduced.

Year	Revenue(RMB'000)	Net profit(RMB'000)
2020	34,273	-29,228
2021	62,556	-10,660
2022(unaudited)	64,566	-14,863
Q2 FY2023	35,716	-4,881

By Order of the Board

Foo Chee Meng
Non-Executive Independent Director
15 September 2023