SHANGHAI TURBO ENTERPRISES LTD.

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

RESPONSE TO QUERIES FROM SECURITIES INVESTORS ASSOCIATION (SINGAPORE) (SIAS)

The Board of Directors (the "**Board**") of Shanghai Turbo Enterprises Ltd. (the "**Company**" wishes to announce the following in response to the queries raised by Securities Investors Association (Singapore) ("**SIAS**").

Question 1. For the financial year ended 31 December 2020, the group recognised revenue of RMB34.27 million, an increase from RMB14.40 million achieved in FY2019. This was attributed to the main operating subsidiary aggressively bidding for projects after the work resumption. However, the cost of sales amounted to RMB38.17 million, resulting in a gross loss of RMB(3.9) million.

For FY2020, loss for the year amounted to RMB(29.2) million, following a loss of RMB(55.6) million in FY2019. Equity attributable to shareholders has slipped from RMB149.4 million (FY2018) to RMB64.5 million (FY2020) over the past 2 years.

(i) Can management elaborate further on its efforts to control costs to improve on its gross and net margin?

Company's response :

The Company has put in efforts to control costs through buying quality raw materials at affordable and reasonable prices as well as reducing overheads through control on water consumption. With all efforts by the Company, the Company has achieved revenue of RMB26.27 million and gross profit of RMB5.13 million in 2QFY2021.

(ii) How is the group balancing profits/margins and scaling up of its operations? Is the group able to win contracts that provide a return that is commensurate with the level of risks taken in its business?

Company's response :

The Company has reviewed the previous operation plan and is aware that in order to achieve group profit margins and to scale up its operations, the Company has to achieve annual revenue of at least RMB80 million per annum. In addition, the Group has established a costing team to monitor tender pricing closely. These efforts have been fruitful as the Group has won contracts with minimum risks. For 2Q FY2021, the Group has achieved revenue of RMB26.27 million, cost of sales of RMB21.14 million and gross profit of RMB5.13 million (FY2020: Revenue RMB34.27 million; Cost of sales RMB38.17 million; Gross loss RMB3.90 million).

(iii) What is the current sentiment on the ground in Changzhou and of the major customers as a result of the pandemic?

Company's response :

Under the current business sentiment in Changzhou, China, the Company is producing OEM products with 2 shifts and 16 hours per day. As the major customer is government linked and the OEM products are used by the power generators in China, the demands for OEM products are high every year.

(iv) Please identify the major opportunities in the core business of precision vane products in the next 18-24 months.

Company's response :

The Company was awarded with tenders from 2019 to 2021 amounting to RMB158.27 million. There were signed contracts on hand amounting to RMB68.15 million as at 30 June 2021 with goods delivered to the major customers from year 2019 up to 30 June 2021 amounting to RMB47.44 million.

In Note 31 (page 88 – Financial instruments: Credit risk), it is noted that the Group recognised expected credit loss ("ECL") amounting to RMB(25.1) million. In particular, customers B and C had ECL of RMB(15.6) million and RMB(3.9) million respectively.

(v) Can management provide an update on the financial status of these customers with long-outstanding debt? What are management's plans to collect on these long-outstanding receivables?

Company's response :

The accounts receivables of the Company were almost fully impaired in 2017. The Company has taken efforts to negotiate with various customers to collect the long outstanding debts. The Company will continue meeting customers to collect the accounts receivables.

(vi) In addition, why has the group recognised ECL of RMB(4.5) million related to customer A which the group has deemed as creditworthy?

Company's response :

The Company has recognized ECL of RMB4.5 million related to customer A as goods delivered to the customers are pending for checking by the customer. During such period, the customer has yet to recognize the goods received from the Company, as such, the trade receivables were not recognized yet.

The Chairman has stated in his letter that the Group will maintain its core business of vane production while transforming and diversifying to become a qualified supplier of aviation blades, OEM product for medical, robotic and automotive components over the next 3 years. It is the Group's target to reduce the revenue from vane products to 50% or less.

(vii) Can the board/management elaborate further on the diversification strategy? What are the group's transferable skills and expertise that would allow it to be competitive in the new sectors, such as medical, robotic and automotive components? Does the group have the financial resources to support its diversification strategy?

Company's response :

The Company would like to diversify to other new sectors such as medical, robotic and automotive components which the existing plant and machineries of the Company can produce. The Company has technical team members who have the expertise in such diversification sectors. The Company has been researching and developing new products with new customers. The Company has some new customers on hand. Once the development is mature, the contracts will be signed with these new customers.

Question 2. As announced on 5 August 2021, the independent auditor of the company issued a disclaimer of opinion in their independent auditor's report in respect of the company's consolidated financial statements for the financial year ended 31 December 2020.

The independent auditor stated that they do not express an opinion on the accompanying financial statements of the group and the statement of financial position of the company. Because of the significance of the matters described in the basis for disclaimer of opinion section of their report, they have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

The basis for disclaimer of opinion includes:

- Going concern assumption
- Impairment testing on property, plant and equipment
- Impairment assessment of investment in subsidiaries
- Opening balances and comparative figures

The auditors had been:

- unable to obtain sufficient appropriate audit evidence regarding the key assumptions applied to arrive at the recoverable amount of the CGU (Impairment testing on property, plant and equipment)
- unable to determine whether any adjustment to the carrying amount of the investment in subsidiaries of RMB156,346,000 (Impairment assessment of investment in subsidiaries)

In fact, the auditors have issued a disclaimer of opinion in their reports in each of the **past three financial years**.

(i) **Can the audit committee (AC) help shareholders understand the assistance rendered to the external auditors to obtain sufficient appropriate audit evidence regarding the key assumptions used in the value-in-use calculations of the CGU?**

Company's response :

The AC, which comprise non-executive independent directors, is fully aware of the difficulties faced by external auditors to obtain sufficient appropriate audit evidence regarding the key assumptions used in the value-in-use calculations of the CGU. Although the Company has been awarded a lot of tenders, a few contracts were signed and the timing for delivery of goods are based on customers' decisions. The revenue is recognized only when the goods have been delivered to the customers. As such, due to uncertainty, no sufficient evidence can be obtained during the year or after the end of audit.

(ii) **Why has the AC been unable to resolve the issue of impairment testing with the auditors in the past three years? What appropriate audit evidence was requested by the independent auditors?**

Company's response :

The AC is unable to resolve the issue of impairment testing with the auditors for the past three years as the appropriate audit evidence requested by the independent auditors are contracts signed during the audit period, the current year and the next few years. As the major customer is government linked customer, no contracts can be signed in advance by the customer.

(iii) **What are the AC's plans to resolve the outstanding basis for disclaimer of opinion? Is the AC experienced and suitably qualified to discharge its responsibilities?**

Company's response :

The Company has qualified and experienced AC Members from FY2018 to FY2020 to discharge their responsibilities to assist the Board in safeguarding the Company's assets, maintaining adequate accounting records and developing and maintaining effective systems of internal controls.

As stated in the directors' statement, in the opinion of the directors, the statement of financial position of the company and the consolidated financial statements of the group are drawn up so as to give a true and fair view of the financial position of the company and of the group as at 31 December 2020 and of the financial performance, changes in equity and cash flows of the group for the financial year then ended (page 31).

(iv) **Would the directors, especially the independent directors who are also audit committee members, help shareholders understand the basis of their opinion (page 31 of the annual report; reproduced above) given the significance of the matters described by the independent auditors in the Disclaimer of Opinion (pages 34-35)?**

Company's response :

In the opinion of the directors,
(a) the statement of financial position of the Company and the consolidated financial statements of the Group are drawn up so as to give a true and fair view of the financial position of the Company and of the Group as at 31 December 2020 and of the financial performance, changes in equity and cash flows of the Group for the financial year then ended; and
(b) at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

Updates on the efforts taken to resolve each outstanding audit issue

In the Group's latest audited financial statements for FY2020, RT LLP ("the External Auditor"), 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.

(i) Going concern assumption

The Group has successfully renewed the secured loan facility amounting to RMB9.49 million with Jiangnan Rural Commercial Bank at an interest rate of 5.21% per annum in July 2021. In March 2021, the Group has further obtained an unsecured loan of RMB8 million from Bank of Communications at an interest rate of 4.35% per annum. The Group has received the unsecured loans of RMB6 million on 31 March 2021 and RMB2 million on 30 July 2021 respectively. The Group is able to maintain and work on improving its liquidity position for the continuing operational existence of its subsidiary, Changzhou 3D Technological Complete Set Equipment Co., Ltd. ("CZ3D"). The Group has addressed the immediate issues described on the going concern comments given by the External Auditor. Based on the information available, the Board is of the opinion that the Company should be able to operate as a going concern, barring any unforeseen circumstances.

(ii) Impairment testing on property, plant and equipment :

The Group has performed an impairment assessment estimating its recoverable amounts based on value in use method the best estimation and the Cash-Generating Unit method.

Impairment assessment – Cash-Generating Unit ("**CGU**")

During the year, the Group has carried out a review of the recoverable amount of non-financial assets of CZ3D which is determined to be CGU arising from indicator for impairment based on facts and circumstances as described in Note 2 to the financial statements. No additional impairment loss is required for FY2020 (FY2019: Nil), as the Group has estimated the recoverable amount of CGU to be higher than the net carrying amount.

The recoverable amount of the CGU was based on its value in use ("**VIU**"), which is discounted cash flows based on 8 years (2019: 8 years) financial budgets approved by management which coincide with the remaining useful lives of the assets within the CGU. The management uses budgets beyond 5-years period as they are of the view that it is the appropriate period to reflect the plan for CZ3D to recover to its historical track records prior to the business disruptions brought about by shareholders' disputes which occurred in 2017 as disclosed in Annual Report 2017, and to continuously grow the business thereafter.

The key management assumptions underlying the computation as at reporting date are: -

	2020	**2019**
Next financial year		
- Forecasted revenue (RM'000)	85,000	65,000
- Gross profit margin	27%	23%
Subsequent years up to year 2028 (2019: year 2027)		
- Revenue growth rate (declining)	30.8% - 6.1%	30.8% - 6.1%
- Gross profit margin (increasing)	23.0% - 28.5%	19.7% - 28.4%
Discount rate	12%	12%

The management is cautiously confident in the business recovery of CZ3D in 2020 despite the current economic environment in China; and are of the view that the above key assumptions represent the best estimations based on available data and there are no reasonably possible changes that could result in substantial impairment in the next financial year.

The Board and the External Auditor will not be able to obtain sufficient evidence for the 10 year budgeted revenue through year end audit and / or current period. It is because the 10 years budgeted revenue is set based on the best estimation judgement of the management. Currently, the Group does not have any 10 years signed contracts on hand. Therefore, the Board can only review the revenue on timely basis instead of providing any inappropriate statements towards it.

(iii) Impairment assessment of investment in subsidiaries :

Investments in subsidiaries are carried at cost less accumulated impairment losses in the Company's statement of financial position.

Investment in subsidiaries are tested for impairment as there are indications that the carrying amounts may not be recoverable due to recent operating losses for the past 4 years. This requires an estimation of the recoverable amount of CGU. Estimating the recoverable amount requires the Company to make an estimate of the expected future cash flows from the cash generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amounts and key assumptions used in estimating recoverable amounts are disclosed in the financial statements.

During the year, management performed an impairment assessment for the investments in Best Success (Hong Kong) Limited and CZ3D arising from indicator of impairment based on facts and continued operations of the subsidiaries in Hong Kong and China. No impairment loss is recognized in 2020 and 2019, as the Group has estimated the recoverable amount of the investment in subsidiaries to be higher than the net carrying amount.

The recoverable amount was estimated based on its VIU calculation with the same management key assumptions as disclosed in property, plant and equipment, and applied a forecasted growth rate of 3% (2019: 3%) to extrapolate cash flow projections from 2029 onwards (2019: 2028 onwards).

The Board and the External Auditor will not be able to obtain sufficient evidence for the VIU calculation and cash flow projection in future as the 10 years projected cash flow is set based on the best estimation judgement of the management. Currently, the Board can only review the current cash flow projection based on the actual timely basis instead of providing any inappropriate statements towards it.

(iv) Opening balances and comparative figures.

The audit opinion on the consolidated financial statements of the Group for the year ended 31 December 2019, which form the basis for the comparative figures presented in the current year's consolidated financial statements, was disclaimed by the predecessor auditor because of the following matters which remain unresolved in the current financial year ended 31 December 2020:

a. Ongoing investigation of debt collection agent fees by Public Security authorities ("CPSA");
b. Impairment assessment on property, plant and equipment; and
c. Impairment assessment on investment in subsidiaries

The Board and the External Auditor are waiting for the investigation result of debt collection agent fees by CPSA.

The Company was not approached by CPSA in the course of their investigations and has not received any details from CPSA after the investigation. The Company's business and operations have not been affected and will continue as usual. The Company will make further announcements as and when necessary.

The above is not expected to have any material financial impact on the consolidated net tangible assets per share and consolidated earnings per share of the Company for the current financial year ending 31 December 2021.

The Board has taken efforts to resolve the audit issues raised by the External Auditor under the disclaimer of opinion.

Question 3. At the annual general meeting scheduled to be held on 30 August 2021, the company is seeking shareholders' approval for the payment of additional directors' fees of RMB150,000 for the financial year ended 31 December 2019 (resolution 5). For the financial year ended 31 December 2020, the company is also seeking shareholders' approval for the payment of directors' fees of RMB1,950,000 (FY2019: RMB1,625,000).

(i) **Would the board disclose the allocation of the RMB150,000 in additional fees for directors for the financial year ended 31 December 2019?**

<u>Company's response :</u>

The additional fees were requested by the Ex-Board due to the increase in number of the directors from 4 directors to 6 directors after 30 April 2019. The additional of RMB150,000 would be distributed among the 6 directors with the range of RMB21,000 to RMB31,000 for the period from 1 May 2019 to 31 December 2019. The allocations of the fees are RMB31,029 to Mr. Huang Wooi Teik, RMB25,019 to Mr. Loh Kai Keong, RMB24,950 to Mr. Lee Kiang Piaw, RMB24,786 to Mr. Koh Wee Kiang, RMB23,637 to Dr. Wong Kee Hau and RMB20,529 to Dr. Daniel Liu.

In addition, the Company has made the following disclosure on the remuneration of directors in the corporate governance report (page 21):

Remuneration for the directors for FY2020 is as follows:

Remuneration Bands & Salary	Salary %	Bonus %	Other Remuneration %	Directors Fees %	Total %
	100	–	–	–	100
Below S$250,000					
Mr. Hong Yong (1)	–	–	–	100	100
Mr. Simon Poh Siew Beng (2)	–	–	–	100	100
Mr. Foo Chee Meng (3)	–	–	–	100	100
Mr. Huang Wooi Teik (4)	–	–	–	100	100
Mr. Koh Wee Kiang (4)	–	–	–	100	100
Mr. Lee Kiang Piaw (4)	–	–	–	100	100
Mr. Shi Bin (5)	–	–	–	100	100
Mr. Cheah Kian Choong (6)	–	–	–	100	100
Mr. Goh Yeow Kiang, Victor (10)	–	–	–	100	100
Mr. Liew Yoke Pheng, Joseph (10)	–	–	–	100	100
Dr. Pan Peiwen (10)	–	–	–	100	100
Non-Independent Directors					
Dr. Daniel Liu Danjun (7)	–	–	–	100	100
Dr. Wong Kee Hau (8)	–	–	–	100	100
Mr. Zhang Wenjun (9)	–	–	–	100	100

(1) Appointed on 30 September 2020.
(2) Appointed on 8 July 2020.
(3) Appointed on 2 May 2021.
(4) Appointed on 30 April 2019 and resigned on 30 June 2020.
(5) Appointed on 9 June 2020 and resigned on 30 September 2020.
(6) Appointed on 9 June 2020 and resigned on 3 February 2021.
(7) Appointed on 1 May 2016.
(8) Appointed on 30 April 2019 and resigned on 30 June 2020.
(9) Appointed on 9 June 2020 and resigned on 13 January 2021.
(10) Appointed on 9 June 2020 and stepped down on 30 June 2020.

(Source : Company annual report 2020)

The company has simply stated that “for confidentiality reasons” it has not disclosed the remuneration of each individual director to the nearest thousand dollars. Provision 8.1 of the Code of Corporate Governance 2018 requires the company to disclose in its annual report the policy and criteria for setting remuneration, as well as names, **amounts** and breakdown of remuneration of each individual director [emphasis added].

(ii) **Has the board assessed if “confidentiality” is a valid justification to deviate from the Code of Corporate Governance? If so, please elaborate further on the underlying reasons to not disclose the individual director fees, especially since the board comprises directors who are all non-executive?**

Company’s response :

SGX Listing Rule No. 8.1 has stipulated that the company discloses in its annual report the policy and criteria for setting remuneration, as well as names, amounts and breakdown of remuneration of each individual director and the CEO. The Company has not disclosed the exact director fee of individual. However, it has been disclosed based on category and putting the band mark below SGD250,000 per person.

(iii) **Furthermore, given the high turnover and the short and varying durations of directors on the board, has the board considered how the disclosure of individual director’s fee would improve the transparency of directors’ remuneration and facilitate shareholders’ decision making in the voting?**

Company’s response :

In 2021, the annual directors’ fees are RMB225,000 X 5 persons = RMB1,125,000. As all the directors have agreed that each individual director will receive the annual director fee of RMB225,000 per annum, there is no additional director fees for holding chair positions in the AC, RC and NC. The disclosures of the directors’ fees are transparent and the payment was made based on the number of service days during 2021.

(iv) **Separately, is there sufficient continuity and stability on the board to provide effective oversight of management to ensure the long-term success of the group?**

Company’s response :

The Board hopes that the Company can grow with stability, increase revenue and reduce losses. The Board and the management have and will continue to put in efforts to hold extra board meetings and management meetings whenever there is a need. The Board believes it has sufficient continuity and stability to contribute to Group’s success in the long run.

BY ORDER OF THE BOARD
SHANGHAI TURBO ENTERPRISES LTD.

Hong Yong
Non-Executive Chairman & Lead Independent Director

26 August 2021