

# SHANGHAI TURBO ENTERPRISES LTD.

(Company Registration No.: CT-151624)

Incorporated in the Cayman Islands

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## RESPONSE TO SGX QUERIES ON COMPANY'S FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED 31 MARCH 2022 PUBLISHED ON SGXNET ON 13 MAY 2022

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The Board of Directors (the "Board") of Shanghai Turbo Enterprises Ltd. (the "Company") wishes to announce the following in response to the subsequent queries raised by The Singapore Exchange Securities Trading Limited ("SGX-ST") on the Company's Response to SGX-ST's queries in relation to the Company's financial statements for the three months ended 31 March 2022 published on SGXNet on 8 June 2022.

### Question #1

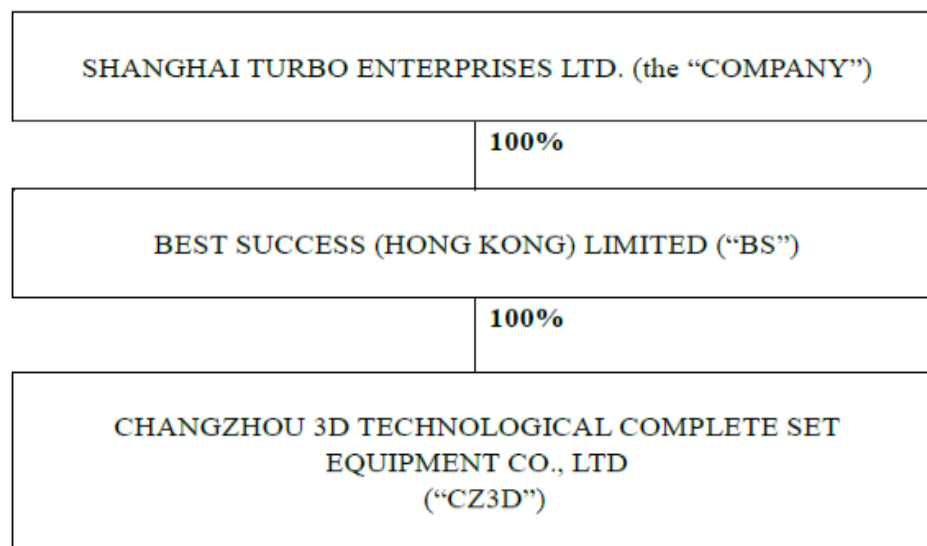
In the Shanghai Turbo Enterprises Ltd's (the "Company") response in the 8 June 2022 announcement to Question 2(a), the Company explained Bank of Communications Limited ("BOC") provided loans of RMB 6 million on 31 March 2021 and RMB 2 million on 30 July 2021. The Company also provided the loan to Mr Liu Ming on 21 May 2021 for his personal use and the approval was based on the CZ3D's Board Resolution signed on 26 March 2021.

a. Please define CZ3D and explain its relationship with the Company.

### Company's Response

Changzhou 3D Technological Complete Set Equipment Co., Ltd ("CZ3D") is the subsidiary of direct holding by Best Success (Hong Kong) Ltd ("BS"); BS is the immediate subsidiary of Shanghai Turbo Enterprises Ltd ( the "Company").

#### CORPORATE STRUCTURE



b. Please explain why the approval was “based on the CZ3D’s Board Resolution signed on 26 March 2021”, and not the Company’s Board resolution.

### **Company’s Response**

As a wholly-owned subsidiary of Best Success (Hong Kong), the establishment of CZ3D complies with the "Company Law", "Articles of Association" and other relevant regulations. The implementation of relevant decisions had been passed by Shanghai Turbo Enterprise BOD meeting held on May 21st, 2021, and the resolution had been formed. CZ3D as the entity company will assume the responsibilities mandated in the formed resolution.

c. As at 21 May 2021, were any of the Company’s directors also on the board of CZ3D?

### **Company’s Response**

Yes. One of the Company’s director is also the director of CZ3D Board.

d. Did the Company’s board and Audit Committee ("AC") make its own assessment of the merits of providing loan to Mr Liu Ming?

### **Company’s Response**

The Company’s Board and AC make its own assessment of the merits of providing loan to Mr Liu Ming. In recent years CZ3D’s customers have switched to the Lowest-Bid-Win model and transferred the product cost burden from Customer Consigned Material to Supplier Purchased Material arrangement. CZ3D ended having to bear the high material cost and the associated costs of indirect materials, labor, overhead etc. that have been rising year by year. The high cash flow needed to operate CZ3D’s manufacturing operations necessitates operating capital from bank credit lines - literally no bank was willing to approve bank loans to CZ3D.

As CZ3D’s factory is physically located in ChangZhou, JiangSu Province, banks operating outside of ChangZhou and JiangSu Province were also reluctant to undertake CZ3D’s credit business. After many discussions with JiangNan Bank, Bank of Communications, Wuxi Bank, etc., these banks finally agreed to our loan applications under the additional condition of personal guarantee from the Company’s local shareholder(s). After seeking help from CZ3D’s local and foreign shareholders, only Mr LIU Ming was willing to put up his property as personal guarantee for CZ3D’s bank loans. In 2021, Mr LIU Ming pledged his property and personal credit as the local shareholder guarantee to help CZ3D secure the RMB 8 million bank loan that replenished CZ3D’s working capital to keep its factory in production since.

e. What were the Company's Board's and AC's considerations for granting the loan?

### **Company's Response**

It was the RMB 8 million bank loan Mr LIU Ming helped secure for CZ3D that has been keeping CZ3D's factory in production since 2021. As a result, CZ3D managed to close year 2021 with annual revenue of RMB 64 million, an 89% growth year-on-year.

Through Mr LIU Ming's personal and real estate asset guarantee, in year 2022 CZ3D managed to secure RMB 13.50 million from Bank of Communications, and Wuxi Bank. JiangNan Bank has also approved loan amount increment from previous year amount of RMB9.49 million to RMB30 million in year 2022, with Mr LIU Ming's personal guarantee. Hence, bringing the company's total bank loan amount to RMB 43.50 million. The Company truly appreciates the help Mr LIU Ming had extended during the difficult challenging but developing time period CZ3D encountered in 2021 and feel obliged to provide short-term loan to Mr LIU Ming at prevailing bank rates. The Company's board had approved the short-term loan based on the Company's valuation, capital needs, prudence and compliance. After discussing with Mr Liu Ming, both parties had agreed to reduce the loan amount from RMB 4 million to RMB 3.09 million.

f. How is the provision of the loan beneficial to the Company and its shareholders?

### **Company's Response**

The provision of loans beneficial to the company and its shareholders has been obtained from JiangNan Rural Commercial Bank ("JRC") over the past few years. CZ3D's overall operation had been sluggish due to the lack of working capital. After the bank had assessed the actual state of the CZ3D, they had decided to significantly reduce the annual bank loan amount.

As of December 31st, 2018, JRC has provided bank loans of RMB 16 million, this amount decreased to RMB 13.3 million as of December 31, 2019, and further decreased to RMB 9.5 million by December 31, 2020 and December 31, 2021.

After CZ3D had gained the support of Mr Liu Ming, the total loan is currently at RMB 43.5 million, of which:

RMB 30.0 million provided JiangNan Bank is guaranteed by the mortgage CZ3D's land certificate and the personal guarantee of Mr Liu Ming;

RMB 9.5 million provided by Wuxi Bank is guaranteed by the personal guarantee of Mr Liu Ming;

RMB 4.0 million provided by Bank of Communications is guaranteed by the personal guarantee of Mr Liu Ming.

The above bank loans enable CZ3D's business to function in a stable manner and customer orders are increasing monthly. While growing the businesses with current customers, CZ3D is able to go after untapped businesses with current customers and new customers to rapidly bring the company into healthy developments.

## **Question #2**

In the Company's Response in the 8 June 2022 announcement to Question 2(c), the Company explained that "the Board has expended (sic) the repayment of the principal sum with a new loan amounting to RMB 3.09 million from BOC". Please confirm that the Company extended the tenure of the loan to Mr Liu Ming based on remainder of the principal amount of RMB 4 million which is due from Mr Liu Ming. What is the significance of the phrase "from BOC" in the Company's Response?

## **Company's Response**

(1) It was the personal guarantee of Mr Liu Ming that help CZ3D secured total bank loan of RMB 43.5 million

(2) The combination of good co-operation between CZ3D and the bank and personal guarantee of Mr Liu Ming resulted in significant reduction of CZ3D's finance cost of money. The annual interest rate of JiangNan Bank has been reduced from 5.91% to 4.20%; Bank of Communications has given CZ3D favorable annual interest rate of 3.70%.

The Company's Board has fully considered CZ3D's capital needs, and it is deemed that CZ3D will continue to need the support of Mr Liu Ming's personal guarantee. As such, CZ3D asked Mr Liu Ming to extend his personal guarantee to December 31st, 2022. Correspondingly, Mr LIU Ming's short-term loan has also been extended to December 31st, 2022 at the Bank of Communications annual interest rate of 3.70%

### Question #3

Why has the Company not charged any interest to Mr Liu Ming for the late payment, especially since the loan to Liu Ming was charged interest on the loan amount in FY2021? In your response, please provide the rationale.

### Company's Response

Loan Tenure Period	Principal Amount	Interest Rate	No. Of Days	Interest Payables	Total Principal & Interest Payables
	RMB'000	%		RMB'000	RMB'000
1 Jan 2022 - 30 Mar 2022	910	4.35%	89	9.652	
31 Mar 2022 - 30 May 2022	910	3.70%	61	5.627	
1 Jan 2022 - 30 May 2022	910		150	15.279	925.279

On May 30th, 2022, Mr Liu Ming repaid RMB 910,000 of the RMB4 million principal in cash. Although the repayment was overdue, CZ3D appreciate Mr LIU Ming's support rendered in the process of negotiating with the bank for more favorable loan policy that resulted in the Bank of Communications annual interest rate of 3.70%. As such, the Company Board did not charge him any penalty other than the interest.

The Company has also decided to revise the interest rate of Mr LIU Ming's loan to 3.7% out of gratitude for his support in getting the favorable Bank of Communications annual interest rate of 3.70%. Mr. Liu Ming has paid RMB 15,279 of interest on June 8th, 2022.

#### **Question #4**

Our Question 2(e) asked for disclosure of the Board's consideration for extending the loan tenure. The Company's Response dated 8 June 2022 to Question 2(e) does not explain the Board's consideration for extending the loan tenure. Please disclose the Board's considerations.

#### **Company's Response**

The Company Board had communicated with Mr. Liu Ming, who had informed the Board that he could repay all loans in full at any time, however in doing so, he would have to withdraw his personal guarantee for CZ3D's bank loans.

In view of the fact that current sustainable and stable operation of CZ3D hinges on the working capital Mr LIU Ming helped to secure with his personal guarantee (RMB 13.50 million from Bank of Communications and Wuxi Bank, and loan increment of RMB 20.51 million from RMB9.49 million to RMB30 million by JNR Bank), CZ3D's current cash flow condition and that CZ3D still needs Mr LIU Ming's support to get future bank loans, CZ3D Board negotiated with Mr Liu Ming and reached an agreement to extend his personal property and personal credit guarantee to December 31, 2022.

Correspondingly, the loan of Liu Ming's shareholders was also extended to December 31, 2022. CZ3D is on the path of development and growth and strongly believes that in the not so distant future it can become self-sufficient in its credit needs and will not have to rely on the personal guarantee of individual shareholder(s) to grow the company. CZ3D is actively exploring new and old markets and seizing the opportunities to achieve leapfrog developments.

**SHANGHAI TURBO ENTERPRISES LTD.**

Foo Chee Meng  
Non-Executive Independent Director  
14 June 2022