

# 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 SIX MONTHS ENDED 30 JUNE 2022 PUBLISHED ON SGXNET ON 13 AUGUST 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 six months ended 30 June 2022 published on SGXNet on 13 August 2022.

### Question#1

Given the Group's significant short-term liabilities of RMB 78,937,000 and cash and bank balance of only RMB 25,062,000 and noting that the Company incurred losses of RMB 6,254,000 for the period ended 30 June 2022, 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 78,937,000, 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

- (i) The Company assess its current assets amounting to RMB78.94 million as adequate to meet the current liabilities as the shortfall is only RMB 5.48 million. This is possible through careful cash management and successful rollover of its short term borrowing that are due in 1Q FY 2023.
- (ii) The Company intends to strengthen its cash flow position over the next 12 months by increasing revenue and accelerating customer collections. The company has formulated a debt repayment plan and asked the purchasing department to arrange for major suppliers to accept special payment terms, and at the same time urged customers to expedite their debt obligations to the company.

### Question#2

It is stated on page 17 of the unaudited financial statements that, "In addition to the fine, in order to apply for the permit for the Buildings, the Company has to provide costs for improvement or reinforcement of the Buildings in order to comply with relevant regulations ("rectification costs") as required by the government." Please quantify the amount of rectification costs and whether it will have a material impact to the Company if materialized.

### Company's Response

CZ3D received a notice from a local government agency dated 2017 requiring the subsidiary to comply with relevant PRC laws and regulations (the "Notice"). The buildings were constructed in 2003 without obtaining the relevant government permission.

## Government fines reserve

As at 31 December 2017, the management estimated and accrued a government fine of RMB 4.37 million, which is 10% of the estimated replacement cost provided by a registered cost engineer. According to the relevant laws and regulations suggested by Changzhou 3D legal counsel, 10% is the prescribed upper limit of fines, ranging from 5% to 10% of the replacement cost.

## Contingent liability for rectification costs

In addition to fines, in order to apply for a building permit for the relevant property, additional fees may have to be incurred to improve or reinforce the property to comply with the relevant regulations ("Rectification Fees") (if any) and as described by the government agency.

The management has obtained legal opinion from the legal counsel of the subsidiary, who believes that the "Notice" indicates that the local government has initiated administrative enforcement procedures against the relevant properties. It is still in the stage of investigation and evidence collection, and it has not yet reached the stage of submitting the "Declaration Letter", nor does it represent the final administrative conclusive document. The legal counsel suggested that Changzhou 3D should actively apply for and complete the necessary legal procedures for the relevant properties. If the government agency continues to investigate, the subsidiary can explain to the government the progress of the legal procedures for the relevant properties and strive for understanding. Since 2017 and up to the date these financial statements are authorized for publication, management confirms that Changzhou 3D has not received further information regarding the investigation, nor has it received specific necessary rectification notices from government agencies.

## Question#3

Please provide a breakdown with specific details on the use of proceeds for working capital utilized on 25 June 2021 and 19 July 2021 as disclosed on page 25 of the unaudited financial statements for the period ended 30 June 2022.

## Company's Response

The board of directors (the "Board") of Shanghai Dynamics (the "Company") had made a paid placement of 3,051,527 new ordinary shares at S\$0.423 per share, increasing the share capital of the Company on 24 May 2021 (the "Net Income ") and would like to provide an update on the use of net proceeds as follows:

Description	SGD	RMB	HKD
Net Proceeds as at 25 May 2021	1,235,420.92	*5,968,194.92	*7,224,741.54
Working capital requirements	1,206,703.83	5,653,548.77	6,903,340.00
Balance of Net Proceeds as at 30 June 2021	28,717.09	314,646.15	321,401.54

Notes :

\* The calculation is based on the Monetary Authority of Singapore's ("MAS") exchange rates as at 25 May 2021 of SGD1 = RMB4,8309 and SGD1 = HKD5.848.

# The amount is extracted from the bank debit advice as at 25 June 2021.

The balance of the Net Proceeds is placed in the escrow account maintained with The United Overseas Bank in Singapore. RMB5,653,548.77 has been transferred to CZ3D as injection of share capital on 19 July 2021.

	Description	Date	RMB
	CZ3D working capital requirements	2021.7.19	5.65 million

	Use of Proceeds	日期	RMB
1	数控强力双头成形磨床 MKLD7150	13 Jul 2021 to 31 Jul 2021	1.73 million
2	数控机器人喷丸机.KXS-3000P	16 Aug 2021	0.94 million
3	Employee cost	1 Aug 2021 to 31 Oct 2021	2.98 million
	Total		5.65 million

#### Question#4

It is stated on page 22 of the unaudited financial statements 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 to resolve outstanding audit issues (ii) to (iv) above.

#### Company's Response

##### (i) Going concern assumption

The Group has successfully renewed the JRC mortgage loan on 15 June 2021 with an annual interest rate of 5.21%. The Group subsequently obtained unsecured loans of RMB6 million and RMB2 million from China Bank of Communications on March 31, 2021 and July 30, 2021, respectively, with an annual interest rate of 4.35%. The Group has fully repaid the loan of RMB 9.49 million to JRC on February 14, 2022. At the same time, the Group obtained new mortgage loans of RMB 20 million and RMB 10 million from JRC on February 14 and February 16, 2022, with an annual interest rate of 4.2%.

The Group has repaid the unsecured loan of RMB 8 million to Bank of Communications on March 31, 2022, and obtained a new unsecured loan on March 31, 2022 with an amount of RMB 4 million and an annual interest rate of 3.7% .

The Group obtained 2 shareholder personal guaranteed loans from Wuxi Rural Commercial Bank on March 30, 2022 and March 31, 2022, with an amount of RMB 5 million and RMB 4.5 million, respectively, with an annual interest rate of 4.7%.

Based on the aforementioned credit support and the company's successful rollover of short-term borrowings due in the first quarter of fiscal 2023 through prudent cash management, the company's ability to continue as a going concern will be enhanced.

(ii) Impairment testing of property, plant and equipment

Since February 2019, CZ3D and the Board of Directors have not engaged an appraiser to revalue right-of-use assets. As of December 31, 2021, the book value of the Group's property, plant and equipment was RMB53,199,000. An impairment loss of RMB 4,273,000 was recognized as a cash-generating unit (CGU).

The Group estimates its recoverable amount based on the value-in-use method and assesses the cash-generating unit for impairment. As disclosed in Note 7 to the financial statements, the recoverable amount of the cash-generating unit has been derived using its discounted cash flow projections. We were unable to obtain sufficient appropriate audit evidence about the key assumptions applied in arriving at the cash-generating unit's recoverable amount. Therefore, we cannot determine whether adjustments are required in relation to the accompanying Statement of Financial Position, Consolidated Statement of Profit or Loss and Other Comprehensive Income and Consolidated Statement of Changes in Equity of the Group for the year ended 31 December 2021. .

(iii) Impairment assessment of investments in subsidiaries

The external auditor was also unable to determine whether it was necessary to adjust the book value of the investment in subsidiaries of RMB161,889,000 (2020: RMB156,236,000) shown in the Company's statement of financial position.

(iv) Opening balances and comparative figures

The former auditor has issued a disclaimer on the audit opinion on the Group's consolidated financial statements for the year ended December 31, 2020, which is the basis for the comparative data presented in the consolidated financial statements for the year ended December 31, 2021, due to the unresolved matters listed below:

- 1) Ongoing investigation by the public security organs on the collection of agency fees;
- 2) impairment assessment of property, plant and equipment; and
- 3) Impairment assessment of investments in subsidiaries

The auditor was unable to obtain sufficient audit evidence to support the key assumptions applied in the discounted cash flow forecast for the fiscal year ended December 31, 2020. As a result, the auditor was unable to determine whether any adjustments for impairment of property, plant and equipment, and investments in subsidiaries were required.

In addition, the investigation of the collection fee by the public security agency is still ongoing, and the external auditor has not been able to obtain sufficient audit evidence to determine the economic substance and legitimacy of the collection fee.

In view of the above matters, the auditor is unable to determine whether the opening balance and comparative figures of the Group as at 1 January 2021 are presented fairly.

**Question#5**

Where a forecast, or a prospect statement, has been previously disclosed to shareholders, please disclose any variance between it and the actual results.

## **Company's Response**

Comments were made on significant trends and competitive conditions in the industry in which the Group operates and any known factors or events that may affect the Group in the next operating period and the next 12 months as of the date of the announcement. From 2019 to 2022, the Group will actively bid for major clients to win these bids. From 2019 to 2022, the contract value of the winning bid is RMB 185.71 million. As of December 2019, the contract value in hand is RMB 95.89 million as at 27 July 2022. From 2019 to June 30, 2022, the delivery of goods to major customers amounted to RMB 86.05 million. The Group has notified and disclosed to the shareholders that they will provide the client with the completed finished product completion tender as disclosed in Note 4.

## **Question#6**

The Group has cash and bank balances of RMB 25,062,000 as at 30 June 2022. This is far higher than its cash and bank balances of RMB 552,000 as at 31 December 2021. Please explain the reason(s) for the significant increase in cash and bank balances, including the Group's future business plans.

## **Company's Response**

The main reason for the significant increase in cash and bank deposit balances is the new loan of 25.56 million yuan in 2022.. CZ3D wants to get into other OEM products, not just the current business. Discussions are ongoing and other OEM deals have not yet been fully executed with the new OEM's customers.

## **Question#7:**

We also noted the Group's borrowings of RMB 43,500,000 as at 30 June 2022. Please disclose the use of proceeds from the loan and whether the loans were approved by the Board of the Company including the Audit Committee.

## **Company's Response**

All company loans are implemented after being approved by the company's board of directors.

SHANGHAI TURBO ENTERPRISES LTD.

Foo Chee Meng

Non-Executive Independent Director

16 September 2022