



ALLIED TECHNOLOGIES LIMITED

(Incorporated in the Republic of Singapore)

(Registration Number 199004310E)

RESPONSE TO QUESTIONS FROM SECURITIES INVESTORS ASSOCIATION (SINGAPORE) ON FY2016 ANNUAL REPORT

The Board of Directors (the “**Board**”) of Allied Technologies Limited (the “**Company**”) wishes to respond to the questions raised from the Securities Investors Association (Singapore) (the “**SIAS**”) in relation to the Annual Report issued by the Company in respect of the financial year ended 31 December 2016 (the “**Annual Report**”).

SIAS’s Question 1:

As seen in the Financial highlights (page 7 of the annual report), the group’s turnover has been stable and the turnover in 2016 of \$123.9 million is the highest in the past 5 years. In Note 4 (page 74 – Segment information), the breakdown of the total revenue is disclosed, as follows:

	Group	
	2016	2015
	%	%
Copier	51	43
Printer	22	23
Automotive	8	9
LCD related stamping	6	3
Data storage devices	4	5
Solar energy related products	4	4
Computer enclosure	2	6
Others	3	7
	100	100

(Source: Allied Technologies Limited Annual Report 2016)

- a) **Can management elaborate further on the growth prospects and sustainability of the copier and printer business?** These two segments account for nearly three quarters of the group’s total turnover in 2016, up from half of the group’s turnover in 2013.

Board response:

With the Company’s available technical knowledge and skills as well as resources and many years of experience in metal stamping industries, the Board is expecting to grow the copier and printer business in the coming years by providing value added services to our existing main customer. The Board is positive that the copier and printer business will be sustainable and will grow in these segments.

- b) Would the new subsidiary, Allied Precision Technologies (M) Sdn. Bhd., be in the copier/printer segment as well?***

Board response:

The new subsidiary, Allied Precision Technologies (M) Sdn Bhd incorporated on 17 August 2016, will focus mainly on business operations in the copier segment in Malaysia.

- c) Does management have plans to further balance its exposure to certain products/customers and have a more diversified product mix?***

Board response:

The Board will continue to explore for potential business opportunities in all avenues to achieve more diversified product mix. In the meantime, the Board will continue to secure new business and grow its existing business to deliver better and more sustainable value to all shareholders of the Company.

SIAS's Question 2:

Q2. With the disposal of the subsidiaries in Shanghai and Taicang, together with the cessation of operation of the Dongguan subsidiary in the second half of FY2015, the group will be operating solely out of Suzhou for the China operations.

- a) Is the restructuring of the group's business to one plant in Suzhou expected to stop the losses in the PRC?***

Board response:

The former subsidiaries in Shanghai and Taicang have been incurring losses which have negatively impacted the Group's result in the previous years. The disposal is intended to allow the Group to reallocate its resources and capital to other profitable operations and eventually deliver positive value to the shareholders of the Company.

- b) What are the specific challenges in the PRC market that have caused losses for the group in previous years?***

Board response:

Specific challenges faced by the Group in the PRC market are mainly high production and labour costs and low sales activities in Shanghai which had caused the losses suffered by the Group in the previous years.

The Shanghai plant owned by the former Shanghai subsidiary is located at Shanghai Wai Gao Qiao Free Trade Zone, where many restrictions on business operation have been imposed. Many customers have since shifted their presence out of the Free Trade Zone, and this has also resulted in a negative impact on the former Shanghai subsidiary's sales.

In addition, the higher labour cost in Shanghai also resulted in an increase in the expenses of the Group. The minimum wage of Shanghai has been raised every year, making it the city with the highest minimum wage in China.

c) What is the utilisation rate of the Suzhou plant?

Board response:

As at 31 December 2016, the utilisation rate of the Suzhou plant stood at 55%.

d) What are management's plans for the Dongguan subsidiary that has ceased operations since the second half of FY2015?

Board's response:

The management is in the process of liquidating Dongguan subsidiary.

SIAS's Question 3:

In Note 21 (page 94 – Trade debtors), the receivables that are past due but not impaired has increased, especially those that are past due by more than 60 days. The details are shown in the table below. The allowance for impairment loss on trade debtors is also a key audit matter in the Independent Auditor's Report (page 40).

<i>Receivables that are past due but not impaired</i>	<i>2016 \$</i>	<i>2015 \$</i>
<i>Less than 30 days</i>	<i>2,168,106</i>	<i>3,308,476</i>
<i>30 days to 60 days</i>	<i>549,938</i>	<i>292,680</i>
<i>60 days to 90 days</i>	<i>619,277</i>	<i>25,339</i>
<i>More than 90 days</i>	<i>1,476,712</i>	<i>155,936</i>

Based on the group's track record over the years, the receivables past due by more than 60 days is unusually large.

a) Can management help shareholders understand the reasons for such big increases? For instance, the amount past due by more than 90 days is \$1.5 million as at 31 December 2016, compared to just \$0.16 million as at 31 December 2015.

Board's response:

The increase in receivables past due by more than 60 days relates mainly to our Suzhou subsidiary, arising due to:

- (i) a delay in the final acceptance from end customers on the products that have been delivered, and
- (ii) time taken to rectify the payment received erroneously by another subsidiary within the Group, which is not the correct contractual subsidiary.

Subsequent to the year end, most of the outstanding receivables have been collected.

- b) What is the profile of the customers with receivables that are past due by more than 60 days? Please disclose the number of such debtors, the debtors' balances, the countries and the industries.**

Board's response:

The receivables that are past due by more than 60 days consisted of a group of 25 debtors.

The profile of the customers are shown in the following table:

	Group	
By countries	S\$'000	%
China	1,640	78
Malaysia	14	1
Thailand	8	-
Singapore	24	1
United States	410	20
Total	2,096	100

	Group	
By industries	S\$'000	%
Information Technology	822	39
Solar Energy	1,152	55
Others	122	6
Total	2,096	100

*Separately, the group has provided an allowance for impairment loss on sundry debtors of \$853,123. **Can management provide more clarity on this impairment?***

Board's response:

Sundry debtors of \$853,123 relates to the funds extended to third parties for projects tendering purpose. Allowance has been provided for the amount when the Group determines that the recoverability is in doubt. However, the Board continues to follow up on the collection and will take legal action when it is deemed necessary.

*The disposal of the two Chinese wholly owned subsidiaries to Carapace Daybreak Ltd resulted in the group recognising non-trade debtor balances of \$12.4 million (non-current) and \$5.7 million (current) as at 31 December 2016. **Can shareholders also understand how management assessed the credit-worthiness of Carapace, the purchaser?***

Board's response:

The non-trade debtor balances of \$14.2 million (non-current) and \$5.7 million (current) as at 31 December 2016 are secured by a personal guarantee from the sole shareholder of Carapace Daybreak Ltd ("**Carapace**"), Chang Kuo-Yung ("**CKY**") and a charge over his shares in Carapace.

The Management has assessed the credit-worthiness and financial ability of Carapace and CKY by reviewing the financial statements of the major entities within Carapace and those owned by CKY, as well as CKY's personal wealth investment products statements.

Additionally, the Company is in the midst of obtaining pledge over certain assets of the two disposed Chinese wholly-owned subsidiaries as an additional security over the outstanding non-trade debtor balance.

BY ORDER OF THE BOARD

Hsu Ching Yuh @ Sheu Ching Yuh
Chief Executive Officer and Group Managing Director

27 April 2017