



WORLD PRECISION MACHINERY LIMITED
(Incorporated in the Republic of Singapore)
(Company Registration Number: 200409453N)

**CLARIFICATION ON UNAUDITED FINANCIAL STATEMENTS FOR THE FINANCIAL
YEAR ENDED 31 DECEMBER 2020**

The Board of Directors (the “**Board**”) of World Precision Machinery Limited (the “**Company**”) refers to the queries raised by the Singapore Exchange Securities Trading Limited (“**SGX-ST**”) on 15 March 2021 in relation to the Company’s Unaudited Financial Statements for the financial year ended 31 December 2020 (“**FY2020 Unaudited Financial Statements**”), and wishes to clarify the following:

SGX-ST’s queries

With reference to the unaudited financial statements for the year ended 31 December 2020, please provide an explanation for the following:

- a) It is disclosed on page 12 of the unaudited financial statements that, “In 4Q20 and FY20, the Group recorded a net provision of impairment losses on trade and other receivables of RMB7.1 million compared to a net write-back of impairment losses on trade and other receivables of RMB0.4 million in 4Q19 and FY19.” Please disclose:
- i. the underlying transactions of the other receivables;
 - ii. the Company’s plans to recover the trade and other receivables;
 - iii. whether they are major customer(s) and whether the Company continues to transact with these customer(s) and if so, what are the commercial reasons in doing so;
 - iv. how long are the debts outstanding and when were the sales reported;
 - v. what were the actions taken to recover the trade and other receivables;
 - vi. the percentage of revenue earned in this financial year that was deemed uncollectible (i.e. trade receivables amount written off or provided for);
 - vii. the general credit term extended to customers;
 - viii. the aging analysis and assessment of the recoverability of the remaining trade and other receivables;
 - ix. the percentage of trade receivables attributed to the major customer (or five largest customers) of the Company;
 - x. the reasons for the impairment on trade and other receivables, including the reasons for delays or non-payment, where applicable;
 - xi. the Board’s opinion on the reasonableness of the methodologies used to determine the value of the impairment of the trade and other receivables; and
 - xii. the Board’s assessment of the recoverability of the remaining trade and other receivables.
- b) It is disclosed on page 12 of the unaudited financial statements that the increase in trade receivables was mainly due to increase in bill receivables. Please explain the factors which resulted in an increase in bill receivables.



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- c) Please disclose a breakdown of the Group's other receivables (current and non-current) as at 31 Dec 2020 and 31 Dec 2019 respectively, and the nature of the transactions.
- d) Please disclose (i) a breakdown of the Group's other payables as at 31 Dec 2020 and 31 Dec 2019 respectively; (ii) the aging and nature of these other payables; and (iii) whether the counterparties are related parties.
- e) Please provide an explanation for an increase in amount due from related parties (trade) from 31 Dec 2019 to 31 Dec 2020.
- f) It is disclosed on page 16 of the unaudited financial statements that an increase in trade payables is mainly due to slow payment to suppliers and a reclassification of \$90.3 million of bill receivables received which were used to pay suppliers but not yet mature. Please provide the relevant accounting entries and explain the reason for the reclassification of \$90.3 million of bill receivables.
- g) Paragraph 10 of Appendix 7.2 Financial Statements and Dividend Announcement states that in the case of half-year and full year announcements, issuers must present the following statements in the form presented in the issuer's most recently audited annual financial statements:

A commentary at the date of the announcement of the significant trends and competitive conditions of the industry in which the group operates and any known factors or events that may affect the group in the next reporting period and the next 12 months.

Please elaborate on the commentary disclosed under Paragraph 10 of Appendix 7.2.

Company's responses

- a) i) The underlying transactions of the other receivables for the purposes of impairment loss are: -

No.	Other receivables	RMB'000	Underlying transactions
1	Amount due from employees	4,910	The amount due from employees mainly pertain to advances to sales staff for sales and business development activities.
2	Others	2,151	Others mainly relate to sundry deposits and payment made and claimable from third parties.
3	Less: Allowance for expected credit losses	(1,591)	The provision was mainly due to the amount due from employees.
	Net other receivables	5,470	



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- ii) The Group's plans to recover the trade and other receivables are as follows:-
- 1) regularly monitoring, reviewing and following up with customers and employees on status of trade and other receivables;
 - 2) co-operation among different departments and management in ensuring faster collections;
 - 3) discussing and developing payment plans with the customers and employees on terms that would be beneficial to the Group; and
 - 4) taking legal actions against the customers and employees that had defaulted on payments.
- iii) They are not major customers and the Group will not continue to transact with these customers which are in default.
- iv) The period of debts outstanding and the year which the sales were reported are as follows: -

	Gross carrying amount RMB'000	Impairment loss allowance RMB'000	Net carrying amount RMB'000	Sales reported Year
Not past due	69,744	(636)	69,108	2020
0 to 6 months past due	17,858	(741)	17,117	2020
6 to 12 months past due	5,592	(510)	5,082	2019 to 2020
More than 1 year past due	32,476	(27,526)	4,950	Prior to 2020
	<u>125,670</u>	<u>(29,413)</u>	<u>96,257</u>	

- v) The actions taken by the Group to recover the said trade receivables and other receivables were as follows: -
- 1) discussing and developing payment plans with the customers and employees on terms that would be beneficial to the Group; and
 - 2) taking legal actions against the customers and employees that had defaulted on payments.
- vi) 0.18% of revenue earned in the financial year ended 31 December 2020 was provided for impairment loss.
- vii) Trade receivables are non-interest bearing and have no uniform credit term. The credit period varies from customer to customer after taking into consideration their payment record, financial background, length of business relationship and size of transactions.



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viii) The aging analysis of the Group's trade and other receivables is as follows:-

	Gross carrying amount RMB'000	Impairment loss Allowance RMB'000	Net carrying amount RMB'000
Trade receivables			
Not past due	69,744	(636)	69,108
0 to 6 months past due	17,858	(741)	17,117
6 to 12 months past due	5,592	(510)	5,082
More than 1 year past due	32,476	(27,526)	4,950
	<u>125,670</u>	<u>(29,413)</u>	<u>96,257</u>
Other receivables			
Not past due	5,479	(317)	5,162
Past due over 1 year	1,003	(695)	308
Past due over 2 years	579	(579)	-
	<u>7,061</u>	<u>(1,591)</u>	<u>5,470</u>

Please see our response to query a(xii) in respect of the recoverability of the remaining trade and other receivables.

- ix) The five largest customers of the Group comprise of 9.22% of the total trade receivables.
- x) The main reason for the impairment of trade and other receivables is a result of customers and employees running into significant financial difficulties due to adverse changes to the business environment and sluggish market conditions.
- xi) The Board is of the opinion that the Group's internal credit evaluation practices and basis for recognition and measurement of expected credit losses as set out below are reasonable:

<u>Description of evaluation of financial assets</u>	<u>Basis for recognition and measurement of ECL</u>
Debtors have a low risk of default and does not have any past due amount	12-month ECL
Contractual payments are more than 30 days past due or where there has been a significant increase in credit risk since initial recognition	Lifetime ECL - not credit-impaired
Contractual payments are more than 90 days past due or there is evidence of credit impairment	Lifetime ECL - credit-impaired



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There is evidence indicating that the Group has no reasonable expectation of recovery of payments such as when the debtor has been placed under liquidation or has entered into bankruptcy proceedings Write-off

- xii) The management has examined the recoverability of the trade and other receivables individually and collectively based on the age of the debts to identify any expected credit losses. The management has also estimated the expected credit loss rates for each category of past due status of trade and other receivables based on historical credit loss record. On this basis, the management has further assessed that no impairment is necessary for the remaining trade and other receivables which are currently past due. The Board has reviewed and accepted Management's analysis and estimates and will continue to have oversight on the progress of the recoverability of the remaining trade and other receivables.
- b) Bill receivables are a form of bill of exchange that a company will receive payment in the future after its maturity date. Bill receivables are issued by financial institutions and are almost a cash equivalent asset. The increase in bill receivables is due to customers using bill receivables as a form of settlement for their debts instead of cash.
- c) Breakdown and nature of the transactions of the Group's other receivables (current and non-current) as at 31 December 2020 and 31 December 2019 are as follows:-

Nature	FY2020 (RMB'000)	FY2019 (RMB'000)
Non-current		
Prepayment for property, plant and equipment	11,352	10,518
Current		
Amount due from employees	3,319	3,142
Advance payments to suppliers	4,394	4,535
VAT receivables	12,141	3,355
Other prepayments	2,055	2,264
Tax recoverable	1,173	3,383
Other receivables	2,151	4,987
Total current other receivables	25,233	21,666



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- d) i) Breakdown and nature of the transactions of Group's other payables as at 31 December 2020 and 31 December 2019 are as follows: -

Nature	FY2020 (RMB'000)	FY2019 (RMB'000)
Accrued operating expenses	86,776	65,490
VAT payables	2,598	3,363
Other payables (payables to various suppliers mostly with amount less than RMB100,000)	21,022	19,436
Bonus payables	19,321	17,657
Payables relating to property, plant and equipment	14,400	23,892
Total	144,117	129,838

- ii) The aging of the Group's other payables is as follows: -

	RMB'000
Not past due	128,741
0 to 6 months past due	12,047
6 to 12 months past due	2,327
More than 1 year past due	1,002
	<u>144,117</u>

- iii) None of the counterparties for these other payables are related parties as at 31 December 2020.

- e) The transaction volume with related parties and outstanding amounts are as follows:-

Period	Transaction volume (RMB'000)	Outstanding amounts (RMB'000)
1 January 2019 to 31 December 2019	56,802	10,188
1 January 2020 to 31 December 2020	134,271	19,423

The increase in amount due from related parties (trade) for the financial year ended 31 December 2020 was due to an increase in the volume of the transactions with related parties.



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- f) The relevant accounting entries for bill receivables are as follows:-

Before reclassification	After reclassification
Dr Bill receivables \$90.3 million	Dr Bill receivables \$90.3 million
Cr Trade receivables \$90.3 million	Cr Trade and other payables \$90.3 million
Dr Trade and other payables \$90.3 million	
Cr Bill receivables \$90.3 million	

In the audited financial statements for the financial year ended 31 December 2019 (“FY2019”), the Group has taken the advice of the external auditors and determined that the bill receivables which are recourse in nature should not be treated as if the risks have been transferred to the suppliers before the maturity of the bill receivables. Accordingly, consistent with the recognition of bill receivables in the FY2019 audited financial statements, the bill receivables and trade and other payables have been represented as gross amounts in the Group’s 1Q2020, 2Q2020, 3Q2020 and FY2020 Unaudited financial statements.

- g) According to the 14th Five-Year Plan, China is aiming to lift its economic, technological and national strength to a new, higher stage in the next five years. This bodes well for the Group’s major customers in various sectors such as automobile, home appliance, consumer electronics industry, railway, aircraft, machinery and hardware industry.

Nonetheless, the battle with COVID-19 is far from over. Apart from the geopolitical issues like the US-China tensions and Brexit, the world now also faces economic, political and social threats arising from the ongoing pandemic. The Group is mindful of the risks and will remain vigilant on how to best adjust to the dynamic situation.

Barring any unforeseen circumstances, the Group is optimistic to remain profitable in FY2021.

The Group’s order book stood at RMB323.0 million as at 24 February 2021.

By Order of the Board

Shao Jianjun
Executive Chairman
17 March 2021