



SHANGHAI TURBO ENTERPRISES LTD. †
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AUDITOR'S OPINION ON THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 PURSUANT TO RULE 704(5) OF THE LISTING MANUAL

Pursuant to Rule 704(5) of the Listing Manual of the Singapore Exchange Securities Trading Limited, the Board of Directors ("**Board**") of Shanghai Turbo Enterprises Limited (the "**Company**") wishes to announce that the independent auditor of the Company, Crowe Horwath First Trust LLP, has issued a disclaimer of opinion in the independent auditor's report in respect of the Company's consolidated financial statements for the financial year ended 31 December 2019 ("**Independent Auditor's Report**").

The nature and contents of the disclaimer of opinion are contained in the Independent Auditors' Report annexed to this announcement.

BY ORDER OF THE BOARD

Mr Huang Wooi Teik
Non-Executive Chairman & Lead Independent Director
12 June 2020



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INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SHANGHAI TURBO ENTERPRISES LTD.

Report on the Audit of the Financial Statements

Disclaimer of Opinion

We were engaged to audit the financial statements of Shanghai Turbo Enterprises Ltd. (the "Company") and subsidiaries (the "Group") set out on pages 8 to 67, which comprise the consolidated statement of financial position of the Group and the statement of financial position of the Company as at 31 December 2019, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group for the financial year then ended, and notes to the financial statements, including a summary of significant accounting policies.

We 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 our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

Basis for Disclaimer of Opinion

1. Going concern assumption

For the current financial year, the Group reported gross loss, loss after tax and negative operating cash flows of RMB 15,132,000, RMB 55,568,000 and RMB 1,877,000 respectively. In addition, revenue of the Group has further reduced by 52% and gross loss margin has deteriorated to 105% as compared to 56% recorded in previous year. As stated in Note 2 to the financial statements, these events and conditions, together with other matters as set forth in Note 2 including the operational uncertainties, indicate the existence of a material uncertainty which may cast significant doubt on the ability of the Group and the Company to continue as going concern.

The directors have prepared the financial statements on a going concern basis based on the assumptions that are largely dependent on the ability of the sole operating subsidiary, Changzhou 3D Technological Complete Set Equipment Co., Limited (Changzhou 3D) to generate sufficient cash flows from the operations to improve its liquidity position and to obtain continuous support from a bank, as disclosed more fully in Note 2. However, based on the information available to us, we have not been able to obtain sufficient audit evidence to support the realisation of these assumptions. We are therefore unable to conclude on the appropriateness of the use of the going concern basis in the preparation of the financial statements.

If the Group and the Company are unable to continue in operational existence in the foreseeable future, the Group and the Company may be unable to discharge their liabilities in the normal course of business and adjustments may have to be made to reflect the situation that assets may need to be realised other than in the normal course of business and at amounts which could differ significantly from the amounts at which they are currently recorded in the statements of financial position. In addition, the Group and the Company may have to reclassify non-current assets and liabilities to current assets and liabilities respectively and to provide for further liabilities which may arise. The financial statements do not include any adjustment which may arise from these uncertainties.



**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF
SHANGHAI TURBO ENTERPRISES LTD. (Continued)**

Basis for Disclaimer of Opinion (Continued)

2. Impairment testing on property, plant and equipment

As at 31 December 2019, the carrying amounts of the Group's property, plant and equipment amounted to RMB 74,473,000, stated after accumulated impairment loss of RMB 4,273,000, which is determined to be a Cash-Generating Unit (CGU).

In view of the facts and circumstances described in matter 1 above, the Group performed an impairment assessment on the CGU and determined the recoverable amount of CGU based on value in use (VIU) calculation. Based on the outcome of management's assessment, the Group did not recognise additional impairment loss for the current year. The key management assumptions used in the VIU computation, as disclosed in Note 9 (i) to the financial statements, include significant improvement in revenue and gross profit margin. However, based on information available to us, we were unable to obtain sufficient appropriate audit evidence regarding the reasonableness of those key assumptions used in determination of the recoverable amount of the CGU.

During the current financial year, the Group has reversed impairment loss previously provided on leasehold buildings and motor vehicles, totalling RMB 530,000, based on their fair value as at 31 December 2019 as disclosed in Note 9 (ii). The impairment loss recognised as at 31 December 2018 represents allocation of impairment loss calculated on the CGU level based on VIU without taking into account the fair value of individual assets.

Our independent auditor's report dated 12 April 2019 expressed a disclaimer of opinion on the financial statements for the financial year ended 31 December 2018 (FY 2018) arising from the same matter as described above in relation to the recoverable amount of property, plant and equipment. Any adjustments to the opening balance would have a corresponding effect on the carrying amounts as at 31 December 2019, and the impairment loss recognised or reversed during the year.

Given the material uncertainties over the going concern of the Group, we were also unable to assess the reasonableness and appropriateness of the carrying amounts of the Group's property, plant and equipment as at 31 December 2019. Consequently, we were unable to determine whether any adjustments to those carrying amounts, loss for the year and accumulated losses as at 1 January 2019 were necessary, including the disclosures therein.



**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF
SHANGHAI TURBO ENTERPRISES LTD. (Continued)**

Basis for Disclaimer of Opinion (Continued)

3. Impairment assessment of investment in subsidiaries

As at 31 December 2019, the carrying amount of the Company's investment in subsidiaries was RMB 156,236,000. In view of the facts and circumstances described in matter 1 above, the Company performed an impairment assessment of the investments on a VIU basis, and did not recognise any impairment loss for the current year based on the outcome of management's assessment. The key management assumptions used in the VIU computation are disclosed in Note 11 to the financial statements. However, similar to the matter 2 above, we were unable to obtain sufficient appropriate audit evidence regarding the reasonableness of the key assumptions applied to arrive at the recoverable amount of the investment in subsidiaries, and unable to assess the reasonableness and appropriateness of the carrying amounts of the Company's investment in subsidiaries as at 31 December 2019 given the material uncertainties over the going concern of the Group and the Company.

Consequently, we were unable to determine whether any adjustments to the carrying amount of the investment in subsidiaries as at 31 December 2019 were necessary. Any impairment loss would have decreased the carrying amount of investment in subsidiaries and increased the accumulated loss of the Company as at that date.

Our independent auditor's report for FY 2018 included a disclaimer of opinion on the same matter. Any adjustments to the carrying amounts of investment in subsidiaries as at 31 December 2018 would have a corresponding effect on the current year's financial statements of the Company.

4. Ongoing investigation of debt collection agent fees by Public Security authorities

As disclosed in Note 27 (ii) to the financial statements, a subsidiary, Changzhou 3D, incurred debt collection agent fees amounting to approximately RMB 3,151,000 (2018: RMB 3,330,000) which was grouped under and classified as administrative expenses in the Group's statement of profit or loss and other comprehensive income. In October 2019, on the findings and advice of its Chinese legal counsel, Changzhou 3D reported these debt collection agent fees to the Chinese Public Security authorities which had since embarked on an investigation of the matter. As at the date of this report, the investigation by Chinese Public Security authorities is still ongoing and the outcome of the investigation is presently unknown.

Based on information available to us, we are unable to satisfy ourselves as to the economic substance and propriety of these debt collection agent fees. We were also unable to ascertain, at this juncture, whether the ongoing investigation would have an impact on the financial statements of the Group.



**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF
SHANGHAI TURBO ENTERPRISES LTD. (Continued)**

Responsibilities of Management and Directors for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the International Financial Reporting Standards (IFRSs), and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair financial statements and to maintain accountability of assets.

In preparing the financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The directors' responsibilities include overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our responsibility is to conduct an audit of financial statements in accordance with International Standards on Auditing and to issue an auditor's report. However, because of the matters described in the *Basis for Disclaimer of Opinion* section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

We are independent of the Company in accordance with the Accounting and Corporate Regulatory Authority (ACRA) *Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities* (ACRA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Singapore, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the ACRA Code.

The engagement partner on the audit resulting in this independent auditor's report is Alfred Cheong Keng Chuan.

Crowe Horwath First Trust LLP
Public Accountants and
Chartered Accountants
Singapore

8 June 2020