SHANGHAI TURBO ENTERPRISES LTD.

(Company Registration No.: CT-151624)
Incorporated in the Cayman Islands

RESPONSE TO SGX-ST'S QUERIES ON AUDITOR'S OPINION ON THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020

The Board of Directors (the "**Board**") of Shanghai Turbo Enterprises Ltd. (the "**Company**") refers to the Company's announcement released on 5 August 2021 (the "**Announcement**") in relation to the Auditor's Opinion on the Financial Statements for the financial year ended 31 December 2020 ("**FY2020**").

The Board wishes to inform shareholders that the Company has received the queries from The Singapore Exchange Securities Trading Limited ("**SGX-ST**") and is providing the following responses to the queries:

<u>SGX-ST's Question #1:</u>

It is noted that the Company's independent auditor have issued a disclaimer opinion ("**Disclaimer**") where the basis of the Disclaimer contains inter alia, the going concern assumption in the independent auditor's report.

Please address the following queries:-
a) the Board of Directors' assessment of the Group's ability to continue operating as a going concern and the bases for the said assessment;

b) the Board of Directors' opinion as to whether trading of the Company's shares should be suspended pursuant to Listing Rule 1303(3) and the bases of its views; and

c) the Board of Directors' confirmation as to whether all material disclosures have been provided for trading of the Company's shares to continue in an orderly manner; and the bases for its views.

<u>Company's Response:</u>

a) The Group has successfully renewed the secured loan facility with Jiangnan Rural Commercial Bank at an interest rate of 5.21% per annum. In 2021, the Group has further obtained an un-secured loan for RMB8 million from Bank of Communications with an interest rate of 4.35% per annum. The Group has received an un-secured loans of RMB6 million on 31 March 2021 and RMB2 million on 30 July 2021 respectively. The Group is able to maintain and work on improving its liquidity position for the continuing operational existence of its subsidiary, Changzhou 3D Technological Complete Set Co., Ltd. ("**Changzhou 3D**"). The Group has addressed the immediate issues described on the going concern comments given by the auditor, RT LLP (the "**Auditor**").

b) Pursuant to Listing Rule 1303(3), the Board believes that the Company's shares should not be suspended as it has resolved the RMB6 million loan repayment demand and is obtaining continuous supports from its banks, addressing key issues on its going concern commented by the Auditor.

c) The Board confirms that all material disclosures have been provided for trading of the Company's shares to continue in an orderly manner, based on its timely disclosures in quarterly financial result disclosures, 2020 Annual Report and other SGXNet disclosures.

SGX-ST's Question #2:

It is noted that the Company's statutory auditor, RT LLP, has indicated that it was unable to obtain sufficient appropriate audit evidence" for the (1) impairment testing on property, plant and equipment and (2) impairment assessment of investment in subsidiaries. Please provide an explanation as to why was RT LLP unable to obtain sufficient appropriate audit evidence on the above.

Company's Response:

(1) Impairment testing on property, plant and equipment :

The Group performed an impairment assessment estimating its recoverable amounts based on value in use method the best estimation and the Cash-Generating Unit method.

Impairment assessment – Cash-Generating Unit ("**CGU**")

During the year, the Group carried out a review of the recoverable amount of non-financial assets of Changzhou 3D which is determined to be CGU arising from indicator for impairment based on facts and circumstances as described in Note 2 to the financial statements. No additional impairment loss is required for FY2020 (FY2019: Nil), as the Group has estimated the recoverable amount of CGU to be higher than the net carrying amount.

The recoverable amount of the CGU was based on its value in use ("**VIU**"), which is discounted cash flows based on 8 years (2019: 8 years) financial budgets approved by management which coincide with the remaining useful lives of the assets within the CGU. The management uses budgets beyond 5-years period as they are of the view that it is the appropriate period to reflect the plan for Changzhou 3D to recover to its historical track records prior to the business disruptions brought about by shareholders disputes occurred in 2017 as disclosed in Annual Report 2017, and to continuously growing the business thereafter.

The key management assumptions underlying the computation as at reporting date are: -

	2020	2019
Next financial year		
- Forecasted revenue (RM'000)	85,000	65,000
- Gross profit margin	27%	23%
Subsequent years up to year 2028 (2019: year 2027)		
- Revenue growth rate (declining)	30.8% - 6.1%	30.8% - 6.1%
- Gross profit margin (increasing)	23.0% - 28.5%	19.7% - 28.4%
Discount rate	12%	12%

The management is cautiously confident in the business recovery of Changzhou 3D in 2020 despite the current economic environment in China; and are of the view that the above key assumptions represent the best estimations based on available data and there are no reasonably possible changes that could result in substantial impairment in the next financial year.

(2) Impairment assessment of investment in subsidiaries :

Investments in subsidiaries are carried at cost less accumulated impairment losses in the Company's statement of financial position.

Investment in subsidiaries are tested for impairment as there are indicators that the carrying amounts may not be recoverable due to recent operating losses for the past 4 years. This requires an estimation of the recoverable amount of CGU. Estimating the recoverable amount requires the Company to make an estimate of the expected future cash flows from the cash generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amounts and key assumptions used in estimating recoverable amounts are disclosed in the financial statements.

During the year, management performed an impairment assessment for the investments in Best Success (Hong Kong) Limited and Changzhou 3D arising from indicator of impairment based on facts and continued operations of the subsidiaries in Hong Kong and China. No impairment loss is recognized in 2020 and 2019, as the Group has estimated the recoverable amount of the investment in subsidiaries to be higher than the net carrying amount.

The recoverable amount was estimated based on its VIU calculation with the same management key assumptions as disclosed in property, plant and equipment, and applied a forecasted growth rate of 3% (2019: 3%) to extrapolate cash flow projections from 2029 onwards (2019: 2028 onwards).

The Auditor was not satisfied with the projections and other variables used in the forecasts by the Group as the Auditor was not able to reasonably justify their application within the definition of acceptable audit evidence.

BY ORDER OF THE BOARD
SHANGHAI TURBO ENTERPRISES LTD.

Hong Yong
Non-Executive Chairman & Lead Independent Director
10 August 2021