SHANGHAI TURBO ENTERPRISES LTD.
(Company Registration No.: CT-151624)
Incorporated in the Cayman Islands

RESPONSE TO SGX QUERIES ON UNAUDITED FINANCIAL RESULTS FOR THE FIRST QUARTER ENDED 31 MARCH 2020

The Board of Directors (the "Board") of Shanghai Turbo Enterprises Ltd. (the "Company") wishes to announce the following in response to the queries raised by Singapore Exchange Securities Trading Limited ("SGX") on the Company's unaudited financial results for the first quarter ended 31 March 2020 ("1Q2020") :

1. It is noted that the Group's revenue decreased by 8% from approximately RMB 2,467,000 in 1Q2019 to approximately RMB 2,268,000 in 1Q2020. We also note that "Inventories" had significantly increased from RMB 2,801,000 as at 31 December 2019 to RMB 5,230,000 as at 31 March 2020.

   We further note on page 13 of the announced financial results that the Company has provided a breakdown disclosing that "As at YTD 1Q FY2020, inventories stood at RMB5.23 million (YTD 4Q FY2019: RMB2.8 million) which mainly consists of WIP inventory amounting to RMB4.91 million (YTD 4Q 2019: RMB2.7 million), newly purchased raw materials amounting to RMB0.03 million (YTD 4Q 2019: RMB0.05 million) and spare parts amounting to RMB0.29 million (YTD 4Q 2019: RMB0.5 million) to fulfill the sales orders."

   (a) When were these sales orders given, and what is the aggregate contract value of these sales orders?

   (b) In respect of the "WIP inventory amounting to RMB4.91 million", when is the Company expected to complete and deliver the finished products to the customer(s)?

<u>Response:</u>

The sales orders were signed in 2019 amounting to RMB15.06 million and delivered RMB2.08 million in 1Q FY2020 from these 2019 sales order.

The production in 1Q FY2020 included the work-in-progress inventory to be delivered for the period from April to August 2020.

2. It is stated on page 11 of the announced financial results:- " In accordance with the Emergency Response Law of the People's Republic of China, the Law of the People's Republic of China on the Prevention and Control of Covid-19, the Jiangsu province and Changzhou City has announced on 29 January 2020 that all the factories must delay the resumption of work not earlier than 9 February 2020. The Group's subsidiary in China (the Subsidiary) resumed working on 13 February 2020." (emphasis added).

   - Please clarify the identity of this Subsidiary.

   - Does the Company have any other subsidiaries which are also operating in the People's Republic of China ("PRC") and if so, how have they been affected by the COVID-19 situation?

Response:

The Subsidiary is located at Changzhou City, Jiangsu Province, China. Therefore, the rules and regulations are to be strictly complied with in the order of Changzhou City, Jiangsu Province follow by the People's Republic of China.

The Company has only one operating subsidiary in China. During the period since 26 January 2020, worker upon return to Changzhou City from other province must quarantine oneself for 14 days. As at 9 February 2020, the number of people affected by Covid-19 in Changzhou City was 51 persons with zero ("0") death while the number of people affected by Covid-19 in Jiangsu Province was 653. The Company must fulfill Articles No. 8 and 13 of the Emergency Response Law of the People's Republic of China, the Law of the People's Republic of China on the Prevention and Control of Covid-19, before the Subsidiary could resume to work. Upon compliance approval by Authority of Prevention and Control of Covid-19, the Subsidiary was given greenlight to resume to work on 13 February 2020.

3. With reference to page 12 of the announced financial results, please clarify what "lower production units, leading to higher cost per unit resulting from under absorption of direct and in-direct overhead for the quarter" means, and further explain the increase in "Cost of sales" of RMB 4,352,000 during 1Q2020 as compared to RMB 2,600,000 during the quarter ended 31 March 2019 ("1Q2019").

Response:

The Subsidiary has fixed overhead cost to be incurred during the factory shut down from 21 January 2020 to 12 February 2020 for the Chinese New Year's holidays and the restriction imposed by rule and regulations of Covid-19 for the Prevention and Control of Covid-19. Due to the restriction on logistic and transportation, the raw material from Chengdu, China cannot arrive at Changzhou promptly resulting in the completed production units of only 271 units in February 2020 as compared to 4570 units in February 2019. These low production units, led to higher cost per unit resulting from under absorption of direct and in-direct overhead for the quarter compared to that in the previous year.

4. Please provide:- (i) a breakdown of the "Trade receivables" financial statement line item amounting to RMB 21,090,000 as at 31 March 2020; (ii) an aging analysis of the trade receivables; and (iii) the Board of Director's assessment of the recoverability of the trade receivables. In this regard, it is also noted on page 13 of the announced financial results under Administrative expenses that:- "…the Subsidiary no longer engaged professional debt collector to collect the long outstanding debts from the customers."

Response:

- The breakdown as follows :

No.	Customer :	RMB'000,000	%
1	A	12.43	58.94
2	B	4.00	18.97
3	Others	4.66	22.09
	Total	21.09	100.00

- The ageing analysis as follows :

No.	Ageing Days	RMB'000,000	%
1	0-90	2.20	10.43
2	91-180	6.63	31.44
3	181-270	5.72	27.12
4	More Than 270	6.54	31.01
	Total	21.09	100.00

- Based on the assessment performed by the management towards the trade receivables on hand, collection of our trade receivables have been slow but are collectible barring any unforeseen changes and deterioration in our customers and sluggish market conditions. The management is of the view that the Group has unconditional rights to trade receivables including unbilled trade receivables as at 31 March 2020. The Subsidiary at this point does not intend to engage professional debt collector for long outstanding debts from our customers.

5. Please provide:- (i) a breakdown of the "Other receivables, deposits and prepayments" financial statement line item amounting to RMB 1,123,000 as at 31 March 2020 and clarify the nature of the underlying transactions.

Response:

The Other Receivables comprise mainly the tender deposits amounting to RMB0.50 million, VAT tax payables RMB0.29 million, prepayments RMB0.17 million and advances to labour union RMB0.16 million.

6. Please provide:- (i) a breakdown of the “Other payables and accruals” financial statement line item amounting to RMB 4,049,000 as at 31 March 2020 and clarify the nature of the underlying transactions.

Response:

The Other Payables and Accruals for RMB4.05 million include mainly the salary payables amounting to RMB1.23 million, accrued operating expenses of RMB1.13 million, legal fee and professional fee payables of RMB0.77 million, electricity bill payables of RMB0.26 million, other taxes payables of RMB0.23 million, outsourcing charges of RMB0.15 million and Others of RMB0.28 million.

7. Please clarify the nature of the “Provision” financial statement line item.

Response:

The Provision is the provision for government fine and contingent liabilities towards the non-compliance of leasehold building defects of the Subsidiary. This was provided since year 2017 until now.

8. It is noted that the Group has intangible assets of RMB 213,000 as at 31 March 2020. The Group also recorded RMB 159,000 as “Amortisation of intangible assets” during 1Q2020, as compared to RMB 66,000 during 1Q2019. Please explain:-

   (a) What is the nature of these intangible assets and how it arose?

   (b) What is the reason(s) for its higher amortisation amount during 1Q2020?

Response:

The Subsidiary has purchased the intangible asset, Siemen’s software for the CNC’s machineries since August 2018.

The amortization of 1Q FY2019 has typo error and wrongly disclosed as RMB66K. The actual amount of amortization of the software was RMB159K in 2019 and same for 1Q FY2020.

9. Please provide further details on what “Deferred government grants” amounting to RMB 1,558,000 relate to, and how long the period of deferment will be.

Response:

The deferred government grant is related to import subsidies received from government for purchase of plant and machinery. The deferred government grant is fixed at the range of RMB222K to RMB223K per annum.

10. We note that the Company has an outstanding loan amount of RMB 6 million as at 15 May 2020, which is repayable in one year or less, or on demand.

- How does the Group intend to repay the amount of RMB 6 million which is repayable in one year or less, or on demand?
- How much of the amount of RMB 6 million is repayable on demand, and what are the conditions or circumstances which would trigger repayment to be made on demand?
- Please provide further information on whether the Company expects cash flow or liquidity issues with regard to the repayment of RMB 6 million, in light of the COVID-19 situation and its impact on the Company's business operations. Please substantiate the Company's stand with specific details.

Response:

The Subsidiary will repay the loan based on the collection of trade receivables and continued renewal of the bank loan.

The amount of RMB6 million is repayable on demand based on the bank loan contract signed by the Subsidiary on 21 Jun 2019. The repayment cannot be defaulted and must be paid on time.

The Subsidiary with monthly collection of trade receivables in the range of RMB2 million to RMB4 million, has been facing very slow collection, aggravated by Covid-19 situation in China, adding to its current borrowing difficulty pressure . At this moment, the bank is performing an important loan assessment for this borrowing line. The Subsidiary has not received the result as at 15 June 2020. The Subsidiary will closely follow up with the bank for the loan approval status.

BY ORDER OF THE BOARD
SHANGHAI TURBO ENTERPRISES LTD.

Huang Wooi Teik
Non-Executive Chairman & Lead Independent Director

15 June 2020