

Issuer: Shanghai Turbo Enterprises Ltd

Security: Shanghai Turbo Enterprises Ltd

Meeting details:

Date: 15 April 2017

Time: 09:30H

Venue: 4 Robinson Road, #04-01 The House of Eden, Singapore 048543

Company Description

Shanghai Turbo Enterprises Ltd, an investment holding company, manufactures and sells precision vane products in the People's Republic of China, Japan, and Korea. The company offers stationary vanes, moving vanes, and nozzles used as components in steam turbine generators used for power generation in power plants, power stations, and/or substations. It also provides precision vane products related subcontracting services. The company was founded in 1997 and is based in Changzhou, the People's Republic of China.

(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=AWM)

Q1. Of the RMB 137 million in total revenue, approximately RMB 26 million was derived from overseas customers in Japan and another RMB 3.8 million from overseas customers in Korea.

- a) **What is management's sales target from overseas customers?**
- b) **How does the group secure its export sales?**
- c) **Are there other markets that the group intend to enter?**

The factory was upgraded with the acquisition of 10 new CNC machines during FY2016 at the cost of RMB 35.4 million (page 7 of the annual report).

- d) **What is the current utilisation rate of the group's factory in Changzhou?**
- e) **What is the useful life of the CNC machines?**

Q2. As highlighted in the Key Audit Matters section of the Independent Auditor's Report (page 44), an impairment loss of "RMB 4,550,000 has been recognized on one of the major customers, which represents 99% of the total impairment loss on receivables recognised in profit or loss for the year".

This is one of the two major customers of the group, whom together contributed 67% of the total revenue of the group. As at 31 December 2016, the amount due from these two customers represented 85% of trade receivable of the Group (excluding bills receivable).

- a) **Is the group currently still trading with the major customer whom the group has taken the impairment losses on?**
- b) **What is the current working relationship with the said major customer and can management provide shareholders with an update on the customer's financial situation?**

In Note 31 (page 99 - Credit risk), RMB 63.3 million out of the RMB 126.1 million of net trade receivables has been impaired but not provided for (as seen below).

The age analysis of trade receivables is as follows:

应收账款的账龄分析如下:

		Group 集团	
		2016	2015
		RMB'000	RMB'000
		人民币千元	人民币千元
<u>Not Impaired</u>	<u>未减值</u>		
Neither past due nor impaired	未减值逾期或并无减值	34,134	56,930
Past due but not impaired	逾期但未减值		
- Past due less than 3 months	- 逾期少于 3 个月	23,231	34,041
- Past due over 3 months	- 逾期超过 3 个月	5,496	51,120
		28,727	85,161
<u>Impaired</u>	<u>减值</u>		
Impaired trade receivables	减值应收账款	72,541	4,731
Less: Allowance for impairment loss	扣除: 减值损失准备	(9,245)	(4,731)
		63,296	-
Net trade receivables (Note 12)	净应收账款 (附注 12)	126,157	142,091

(Source: Shanghai Turbo Enterprises Ltd Annual Report 2016)

- c) **How confident is management that the RMB 4.5 million allowance is sufficient and that the balance of the RMB 63.3 trade receivables will be collected?**

Q3. As disclosed in Note 27 (pages 90 to 91 – Cash and cash equivalents), the group has bank balances placed with banks in the PRC denominated in Chinese Renminbi (“RMB”) amounting to RMB 31.0 million. The total bank balances amounted to RMB 50.3 million. Yet the group had taken a 1 year tenure bank loan of RMB 7.0 million in April 2016 at an interest rate of 4.57%. As seen in the Consolidated statement of cash flows (page 54), the group has paid RMB 226,000 in interest expenses.

- a) **Can management explain the rationale for the group to take on a bank loan of RMB 7.0 million since it has RMB deposits of RMB 31.0 million on the balance sheet?**
- b) **What guidance or target has the board given to management in terms of the group’s capital structure?**