

Issuer: Shanghai Turbo Enterprises Ltd

Security: Shanghai Turbo Enterprises Ltd

Meeting details:

Date: 19 March 2018

Time: 9.30 a.m.

Venue: 137 Cecil Street, Hengda Building, #03-01 Tokyo 2 Room, Singapore 069537

Company Description

Shanghai Turbo Enterprises Ltd., an investment holding company, manufactures and sells precision vane products for steam turbine power generator manufacturers in the People's Republic of China, Japan, and South Korea. The company offers stationary vanes, moving vanes, and nozzles, which are used as components in steam turbine generators 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)

1. Can the Board and or senior management update shareholders on the illegal occupation of the group’s operating subsidiary, Changzhou 3D Technological Complete Set Equipment Co., Limited (“Changzhou 3D”) that took place from 15 April 2017 to 20 September 2017:

- (i) **Since the repossession of the Changzhou factory on 20 September 2017, can the company let shareholders know the improvements made to the physical security of the site and the safeguards provided for its staff?**
- (ii) **Does the current board/management have possession and is in control of its bank tokens, company seal(s) and all its legal documents?**
- (iii) **Does the board expect any further losses as a result of the illegal occupation?**
- (iv) **Is Changzhou 3D operating at the pre-crisis level in terms of capacity, capability and quality of products?**
- (v) **What are the timelines for Changzhou 3D to achieve the “Five immediate remedies” as detailed by the CEO in the CEO’s Statement (page 5 of the annual report)?**
- (vi) **The company has commenced a law suit and has obtained an injunction of SGD 30 million restricting Mr Liu Ming from the disposal of his assets in Singapore. Can the company provide better visibility to shareholders on the options available to company to seek restitution from Mr Liu Ming as a result of the illegal occupation?**

2. The Independent Auditor, in the Independent Auditor’s Report, has highlighted three key audit matters related to the company’s financial statements. Key audit matters are those matters that, in the professional judgement of the Independent Auditor, were of most significant in the audit of the financial statements of the current period. Specifically, shareholders would like to ask about:

- (i) **Credit risk concentration and recoverability of receivables (pages 37-38):** The group has recognised total impairment allowance on overdue balances as at 31 December 2017 amounting to RMB 73,167,000 (2016: RMB 9,245,000) which is inclusive of an amount of RMB 50,166,000 (2016: RMB 4,550,000) from one former major customer. **Can the audit committee elaborate further on the basis of the impairment of RMB 50,166,000 from this former major customer? What is the current financial/operating status of this former major customer? What are the efforts by management to collect the outstanding debts from this former major customer? What are the options available to the group should the debts remain outstanding? Has the group stopped trading with this former major customer because of significant uncertainty over collection even prior to the illegal occupation and this impairment?**
- (ii) **Inventories write down (page 38):** In addition, a provision on inventory obsolescence amounting to RMB 30,984,000 was recognised in the financial year as management has assessed that the net realisable value of inventory was significantly impacted due to the 5-month illegal occupation. The main reason given is that the group’s products are made-to-order. **Can the audit committee provide a breakdown of the RMB 30,984,000 inventory obsolescence impairment? What are management’s pro-active efforts to salvage the value of the finished goods? As shown in Note 12 (page 71 – Inventories), the full year cost of sales for FY2016 was RMB35.1 million when the revenue was RMB137 million. Can the audit committee provide better clarity on the disproportionately large inventory obsolescence of RMB31 million when the affected period was for five months of the year?**

3. The group's operating subsidiary Changzhou 3D is being led by Mr Zhang Rong. Mr Zhang is President and General Manager of Changzhou 3D and it was disclosed that Mr Zhang was part of the team that executed the forceful entry into the factory in a bid to regain the possession of the factory.

In the CEO's Statement (page 5), Mr Zhang has provided shareholders with an overview of his immediate plans and his long term plans for Changzhou 3D. From the profile of Key Management on page 13, the background and experience of Mr Zhang Rong and his other principal commitments are:

Present principal commitments

(other than directorships in other listed companies)

- General Manager, J & R (Beijing) Consulting Co. Ltd. - Corporate Representative
- Consultant, Ducatt NV
- Consultant, Renolit Belgium NV

Background and experience

Mr Zhang has served in various German-listed companies for about 10 years, assuming many roles including assistant to technical director, quality manager and general manager of the Chinese affiliate among others, where he acquired diverse experience and knowledge in the manufacturing industry. In 2014, he established his own consultancy company, mainly offering technical and strategic consulting services to the European companies which were keen to develop their businesses in the Greater China.

(Source: Company annual report)

- (i) **Would the board confirm if Mr Zhang has been appointed on a full time basis as the President and General Manager of Changzhou 3D?**
- (ii) In Mr Zhang's profile, it was disclosed that Mr Zhang has three other principal commitments, namely General Manager, J & R (Beijing) Consulting Co. Ltd. - Corporate Representative, Consultant, Ducatt NV and Consultant, Renolit Belgium NV. **Given that the group has to reverse the impact of the illegal occupation while the business environment remains highly challenging, how does Mr Zhang ensure that he is able to commit sufficient time and energy to Changzhou 3D while having three other principal commitments?**
- (iii) **Given his other principal commitments, would Mr Zhang be frequently put in a position where he would have conflicts of interests?**

A copy of the questions for the Annual Report for the financial year ended 31 December 2017 could be found here:

<https://sias.org.sg/qa-on-annual-reports/?company=Shanghai%20Turbo%20Enterprises%20Ltd>

The company's response could be found here: -----