Securities Investors Association (Singapore)
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Email: admin@sias.org.sg www.sias.org.sg
UEN No: S99SS0111B
GST Reg No: M90367530Y

Issuer: Shanghai Turbo Enterprises Ltd.

Stock code: AWM

Meeting details:
Date: 30 August 2021
Time: 3.30 p.m.

Due to the current COVID-19 pandemic, SIAS encourage shareholders to participate at AGMs via other means and not to attend any AGM physically. Where the AGM is webcast, they can stay on top of their investments by watching the webcast and submitting their question to the company in advance. Senior citizens should avoid attending AGMs altogether and stay home.

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Q1. For the financial year ended 31 December 2020, the group recognised revenue of RMB34.27 million, an increase from RMB14.40 million achieved in FY2019. This was attributed to the main operating subsidiary aggressively bidding for projects after the work resumption. However, the cost of sales amounted to RMB38.17 million, resulting in a gross loss of RMB(3.9) million.

For FY2020, loss for the year amounted to RMB(29.2) million, following a loss of RMB(55.6) million in FY2021. Equity attributable to shareholders has slipped from RMB149.4 million to RMB64.5 million over the past 2 years.

(i) **Can management elaborate further on its efforts to control costs to improve on its gross and net margin?**

(ii) **How is the group balancing profits/margins and scaling up of its operations? Is the group able to win contracts that provide a return that is commensurate with the level of risks taken in its business?**

(iii) **What is the current sentiment on the ground in Changzhou and of the major customers as a result of the pandemic?**

(iv) **Please identify the major opportunities in the core business of precision vane products in the next 18-24 months.**

In Note 31 (page 88 – Financial instruments: Credit risk), it is noted that the group recognised expected credit loss (ECL) amounting to RMB(25.1) million. In particular, customers B and C had ECL of RMB(15.6) million and RMB(3.9) million respectively.

(v) **Can management provide an update on the financial status of these customers with long-outstanding debt? What are management's plans to collect on these long-outstanding receivables?**

(vi) **In addition, why has the group recognised ECL of RMB(4.5) million related to customer A which the group has deemed as creditworthy?**

The chairman has stated in his letter that the group will maintain its core business of vane production while transforming and diversifying to become a qualified supplier of aviation blades, OEM product for medical, robotic and automotive components over the next 3 years. It is the group's target to reduce the revenue from vane products to 50% or less.

(vii) **Can the board/management elaborate further on the diversification strategy? What are the group's transferable skills and expertise that would allow it to be competitive in the new sectors, such as medical, robotic and automotive components? Does the group have the financial resources to support its diversification strategy?**

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Q2. As announced on 5 August 2021, the independent auditor of the company issued a disclaimer of opinion in their independent auditor's report in respect of the company's consolidated financial statements for the financial year ended 31 December 2020.

The independent auditor stated that they 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 their report, they have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

The basis for disclaimer of opinion includes:
- Going concern assumption
- Impairment testing on property, plant and equipment
- Impairment assessment of investment in subsidiaries
- Opening balances and comparative figures

The auditors had been:
- unable to obtain sufficient appropriate audit evidence regarding the key assumptions applied to arrive at the recoverable amount of the CGU (Impairment testing on property, plant and equipment)
- unable to determine whether any adjustment to the carrying amount of the investment in subsidiaries of RMB156,346,000 (Impairment assessment of investment in subsidiaries)

In fact, the auditors have issued a disclaimer of opinion in their reports in each of the **past three financial years**.

(i) **Can the audit committee (AC) help shareholders understand the assistance rendered to the external auditors to obtain sufficient appropriate audit evidence regarding the key assumptions used in the value-in-use calculations of the CGU?**

(ii) **Why has the AC been unable to resolve the issue of impairment testing with the auditors in the past three years? What appropriate audit evidence was requested by the independent auditors?**

(iii) **What are the AC's plans to resolve the outstanding basis for disclaimer of opinion? Is the AC experienced and suitably qualified to discharge its responsibilities?**

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As stated in the directors' statement, in the opinion of the directors, the statement of financial position of the company and the consolidated financial statements of the group are drawn up so as to give a true and fair view of the financial position of the company and of the group as at 31 December 2020 and of the financial performance, changes in equity and cash flows of the group for the financial year then ended (page 31).

(iv) **Would the directors, especially the independent directors who are also audit committee members, help shareholders understand the basis of their opinion (page 31 of the annual report; reproduced above) given the significance of the matters described by the independent auditors in the Disclaimer of Opinion (pages 34-35)?**

Q3. At the annual general meeting scheduled to be held on 30 August 2021, the company is seeking shareholders' approval for the payment of additional directors' fees of RMB150,000 for the financial year ended 31 December 2019 (resolution 5). For the financial year ended 31 December 2020, the company is also seeking shareholders' approval for the payment of directors' fees of RMB1,950,000 (FY2019: RMB1,625,000).

(i) **Would the board disclose the allocation of the RMB150,000 in additional fees for directors for the financial year ended 31 December 2019?**

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In addition, the company has made the following disclosure on the remuneration of directors in the corporate governance report (page 21):

Remuneration for the directors for FY2020 is as follows:

Remuneration Bands & Salary	Salary %	Bonus %	Other Remuneration %	Directors Fees %	Total %
	100	–	–	–	100
Below S$250,000					
Mr. Hong Yong [1]	–	–	–	100	100
Mr. Simon Poh Siew Beng [2]	–	–	–	100	100
Mr. Foo Chee Meng [3]	–	–	–	100	100
Mr. Huang Wooi Teik [4]	–	–	–	100	100
Mr. Koh Wee Kiang [4]	–	–	–	100	100
Mr. Lee Kiang Piaw [4]	–	–	–	100	100
Mr. Shi Bin [5]	–	–	–	100	100
Mr. Cheah Kian Choong [6]	–	–	–	100	100
Mr. Goh Yeow Kiang, Victor [10]	–	–	–	100	100
Mr. Liew Yoke Pheng, Joseph [10]	–	–	–	100	100
Dr. Pan Peiwen [10]	–	–	–	100	100
Non-Independent Directors					
Dr. Daniel Liu Danjun [7]	–	–	–	100	100
Dr. Wong Kee Hau [8]	–	–	–	100	100
Mr. Zhang Wenjun [9]	–	–	–	100	100

[1] Appointed on 30 September 2020.
[2] Appointed on 8 July 2020.
[3] Appointed on 2 May 2021.
[4] Appointed on 30 April 2019 and resigned on 30 June 2020.
[5] Appointed on 9 June 2020 and resigned on 30 September 2020.
[6] Appointed on 9 June 2020 and resigned on 3 February 2021.
[7] Appointed on 1 May 2016.
[8] Appointed on 30 April 2019 and resigned on 30 June 2020.
[9] Appointed on 9 June 2020 and resigned on 13 January 2021.
[10] Appointed on 9 June 2020 and stepped down on 30 June 2020.

(Source: company annual report)

The company has simply stated that "for confidentiality reasons" it has not disclosed the remuneration of each individual director to the nearest thousand dollars. Provision 8.1 of the Code of Corporate Governance 2018 requires the company to disclose in its annual report the policy and criteria for setting remuneration, as well as names, **amounts** and breakdown of remuneration of each individual director [emphasis added].

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(ii) **Has the board assessed if "confidentiality" is a valid justification to deviate from the Code of Corporate Governance? If so, please elaborate further on the underlying reasons to not disclose the individual director fees, especially since the board comprises directors who are all non-executive?**

(iii) **Furthermore, given the high turnover and the short and varying durations of directors on the board, has the board considered how the disclosure of individual director's fee would improve the transparency of directors' remuneration and facilitate shareholders' decision making in the voting?**

(iv) **Separately, is there sufficient continuity and stability on the board to provide effective oversight of management to ensure the long-term success of the group?**

[^]On 1 October 2020, the Accounting and Corporate Regulatory Authority ("ACRA"), the Monetary Authority of Singapore ("MAS") and Singapore Exchange Regulation ("SGX RegCo") published an updated checklist to guide listed entities on the conduct of general meetings arising from the latest updates from the Multi-Ministry Taskforce.

Issuers may continue to conduct their general meetings held on or before 30 June 2021 via electronic means, and are encouraged to do so. On 9 April 2021, it was announced that the alternate arrangements for meetings ("Meetings Order") would be extend beyond 30 June 2021 until it is revoked or amended by the Ministry of Law. Accordingly, until such time, issuers may continue to utilise the Checklist issued by ACRA, MAS and SGX RegCo to guide entities on the conduct of their general meetings.

Issuers who, after due consideration of public health and other risks, wish to provide for physical attendance at their general meetings must ensure that they implement all relevant measures to comply with the safe management measures imposed by the Singapore Government.

Shareholders are welcome to use and/or adapt the questions prepared by SIAS and to forward them to the company.

Can't attend the AGM or view the webcast? Check out the latest questions on the annual reports of listed companies on SIAS website

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[^] Guidance on the Conduct of General Meetings Amid Evolving COVID-19 Situation (https://www.sgx.com/media-centre/20201001-guidance-conduct-general-meetings-amid-evolving-covid-19-situation)