



WORLD PRECISION MACHINERY LIMITED
(Incorporated in the Republic of Singapore)
(Company Registration Number: 200409453N)

RESPONSES TO QUESTIONS FROM SECURITIES INVESTORS ASSOCIATION (SINGAPORE) ON ANNUAL REPORT FOR FINANCIAL YEAR ENDED 31 DECEMBER 2018

The Board of Directors (the “**Board**”) of World Precision Machinery Limited (the “**Company**”, and collectively, the Company and its subsidiaries, the “**Group**”) refers to questions raised by Securities Investors Association (Singapore) (“**SIAS**”) in relation to the Company’s Annual Report for the financial year ended 31 December 2018 (“**Annual Report 2018**”). The Company’s responses and the corresponding questions are set out below:

Q1. Would the board/management provide shareholders with better clarity of the following operational matters? Specifically:

- (i) **New products: As shown on page 5 of the annual report (Milestones), the group launched 6 new products in the year, including JH28-160/200/400 and WD-F3015L. Can management help shareholders understand how new products are designed/conceptualised? Are the new products launched with customers already identified?**

[Company’s response to 1\(i\)](#)

These new products are the result of in-house research and development efforts, after reviewing market needs. These new products are also developed through feedback from sales personnel, distributors and customers. The engineering team will then conduct tests for these new products before they are launched. Hence, there is already an identified customer base for some of the new products launched while other new products are launched to complement existing products with market potential in various industries.

- (ii) **Raw material: How is management managing the risk of raw material price? Has management explored innovative/improved design that cuts down on the raw material needed for each stamping machine?**

[Company’s response to 1\(ii\)](#)

As the industry is subject to price volatility, the Group does not have control over the market prices of raw materials. However, the Group mitigates these price risks by locking in certain specific quantities of raw materials in advance at agreed prices through a prepayment scheme with suppliers, which is dependent on the Group’s demand and market practices ranging from a minimum of one week to a maximum of 6 months. The Group is also exploring various innovative/improved design features that will cut down raw material requirements for

stamping machine. Another critical area that the Group is actively pursuing is to reduce wastage of raw materials used in the production of stamping machines.

(iii) Export market: Which key markets is the group exploring?

Company's response to 1(iii)

The Group's main market remains the domestic market in the People's Republic of China. The Group's export sales are not significant compared to domestic sales. The export sales are conducted through in-house export sales team and/or third-party PRC distributors.

(iv) Related party transactions (RPTs): The group has a substantial amount of transactions with related parties, including sales of products, purchases of raw material and purchase of scrap material. The details of the RPTs are shown in Note 31 and reproduced below:

31. Related party transactions

In addition to the information disclosed elsewhere in the financial statements, the following related party transactions took place between the Group and related parties during the financial year on terms agreed by the parties concerned:

	Group	
	2018 RMB'000	2017 RMB'000
<i>Income</i>		
Lease of premises to a related party	7,619	7,619
Sales to related parties	56,385	26,775
Processing services to related parties	2,895	3,489
<i>Expenses</i>		
Lease of premises from a related party	686	685
Processing services from related parties	3,429	2,258
Purchases of machineries and parts from related parties	690	30,884
Purchases of raw materials from related parties	24,025	22,780
Purchases of scrap materials from related parties	18,738	10,466

Related parties comprise mainly entities which are effectively controlled by the Company's director, Mr. Wang Weiyao and his spouse. Mr. Wang Weiyao is also a controlling shareholder of the Company.

(Source: Company annual report)

Would the audit committee elaborate further on how it reviews the RPTs to ensure that such transactions are carried out on normal commercial terms? How does the audit committee satisfy itself that the terms of the sales, including prices, are fair and reasonable and are not prejudicial to the interests of the issuer and its minority shareholders?

Company's response to 1(iv)

The Audit Committee ("AC") noted that all¹ interested person transactions ("IPT"), which are the abovementioned related party transactions, for the financial year ended 31 December

2018 were carried out on normal commercial terms in accordance with the review procedures and in the ordinary course of the Group's business that are necessary for the day-to-day operations of the Group, pursuant to the shareholders' mandate for IPTs (the "**IPT Mandate**") obtained from shareholders at the Annual General Meeting ("**AGM**") held on 27 April 2018. These IPTs fall within the various types of transactions approved and set out in paragraph 4 of Appendix A to the Company's Circular to shareholders accompanying the Notice of AGM dated 12 April 2018 (the "**Circular**") and are entered into with the specified classes of the Company's interested persons set out in paragraph 3 of Appendix A to the Circular.

In accordance with the IPT Mandate, any transaction of a value equal to or exceeding 3% of the Company's latest audited consolidated net tangible assets (the "**Financial Limit**") and transactions entered into with the same interested person during the same financial year amounting to or exceeding the Financial Limit, are required to be reviewed and approved by the AC and the Board prior to their entry.

Upon reaching the Financial Limit, in order not to hinder the day-to-day operations of the Group, Management had obtained prior approval from the AC and the Board on the threshold to enter into additional IPTs which are necessary for the day-to-day operations of the Group, on the condition that these additional IPTs are to be carried out on normal commercial terms in accordance with the review procedures and in the ordinary course of the Group's business based on the IPT Mandate ("**Additional IPTs Exceeding the Financial Limit**"). These Additional IPTs Exceeding the Financial Limit would be tabled for the AC and Board's review and ratification at the next quarterly meetings after they had been entered into. In addition, the AC also ensures that the receivables from the IPTs do not exceed 1 year.

The review of IPTs is also part of the annual internal audit scope and the Group's outsourced internal auditors, Nexia TS Risk Advisory Pte. Ltd. ("**Nexia**"), noted that there were no exceptions.

¹ Save for the processing fee paid to Jiangsu World Construction Machinery Sales Co., Ltd of RMB11,000 which was not covered under the IPT Mandate as it is a new interested person/related party. This transaction was carried out on normal commercial terms and is not prejudicial to the interests of the Company and its minority shareholders.

Q2. On 1 March 2019, the company announced changes to the management team changes of its wholly owned subsidiary, World Precise Machinery (China) Co., Ltd. ("**WPMC**"), with effect from 1 March 2019:

Chief Deputy General Manager Mr Zhuang Guosheng has been appointed as the Chief Deputy General Manager of WPMC in place of Mr Wen Hui, who has resigned as the Chief Deputy General Manager of WPMC.

Therefore, Mr Wen shall cease to be an executive officer of the Company and Mr Zhuang will be overall in charge of WPMC's production, technical, quality control, procurement and equipment departments.

Deputy General Manager

Mr Jin Zhaoguo has been appointed as the Deputy General Manager of WPMC in place of Mr Wang Yawei, who has resigned as the Deputy General Manager of WPMC. Therefore, Mr Wang shall cease to be an executive officer of the Company and Mr Jin will be overall in charge of WPMC's sales and market development.

- (i) With top level management changes in WPMC, were the group's operations affected during this period?**

[Company's response to 2\(i\)](#)

The Group's operations were not affected by these management changes in WPMC, as their replacements possessed the relevant experience in the industry.

- (ii) Were there any other reasons for the departure of the former executives?**

[Company's response to 2\(ii\)](#)

There were no other reasons, personal or otherwise for the departure of the former executives. These changes were undertaken in the normal course to streamline our business operations.

- (iii) Have the new Chief Deputy General Manager and Deputy General Manager fully assumed their responsibilities and have hit the ground running?**

[Company's response to 2\(iii\)](#)

The new Chief Deputy General Manager and Deputy General Manager have fully assumed their responsibilities and are actively involved in managing the Group's business.

- (iv) With nearly two months into the group, has the new management team further finetuned the group's operations and strategic direction?**

[Company's response to 2\(iv\)](#)

The new management team has integrated well with the Group's operations and is being guided by the executive Chairman. They are engaged and involved in further finetuning the Group's operations and strategic directions. The Group is optimistic that this team will strengthen its management capabilities.

Q3. The company has disclosed that it engaged Nexia TS Risk Advisory as its outsourced internal auditor. In addition, Nexia TS Risk Advisory has also been commissioned to assist management in the group's Enterprise Risk Management ("ERM") which will help the group to identify and manage strategic, operational, compliance and financial risks.

- (i) Can the audit committee (AC) confirm that Nexia has been tasked to (a) assist management to establish the group's ERM framework (including the risk register) and to (b) conduct the internal audit as the group's outsourced internal auditor?**

Company's response to 3(i)

The ERM framework (including the risk register) has been set up by the Risk Management Committee (“**RMC**”) of the Company and an annual CSA exercise is conducted to encourage increased risk awareness and enhanced risk understanding among both the participants and the recipients of the assessment. Nexia has been commissioned to assist Management and review the Group's Enterprise Risk Management (“**ERM**”) framework established by the RMC. A report which documents the Group's risk management profile summarising the material risks faced by the Group and the countermeasures in place to manage or mitigate those risks is submitted to the AC on an annual basis. The objectives of the ERM and CSA services are to identify and manage internal controls relating to strategic, operational, financial and compliance risks in order to better respond to the changing business environment.

Nexia also conducts internal audit based on the agreed scopes as approved by the AC.

(ii) Can the AC elaborate further on the scope of Nexia's work on the ERM?

Company's response to 3(ii)

The following procedures were covered by Nexia in the work on the ERM based on the ERM framework established by the Group:-

- Review management's ERM framework based on Nexia ERM methodology and provide recommendations for improvement, if any.
- Review the risk register provided and based on the understanding of the significant activities of the Group, key risks flowing from these activities are properly identified.
- Provide a comprehensive list of risk based on the Group's objectives and activities for management's consideration.
- Evaluate whether the system of risk treatment is effective and efficient in operation, internal controls and compliance to laws and regulations.
- Review the monitoring process established by management to ensure the appropriate controls in place and procedures are understood and followed.

(iii) Did the AC consider if there would be any threat of self review?

Company's response to 3(iii)

The AC meets with the Internal Auditors without the presence of Management at least once annually and informally throughout the year and during occasional AC meetings when the internal auditors are invited for specific queries. During such meetings, the AC would discuss and assess in detail on the scopes and processes of the ERM and internal audit with Nexia including threat of self review.

By Order of the Board

Shao Jianjun
Executive Chairman
3 May 2019