

Shanghai Turbo Enterprises Limited

SUSTAINABILITY REPORTING 2017



Top: Main Building of Changzhou 3D Technological Complete Set Equipment Co., Ltd
Middle: Main Digital Machinery Bottom: Products, machines and complete set

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1. The Board and Board STATEMENT

1.1 Board Statement

We are pleased to present our inaugural Sustainability Report of Shanghai Turbo Enterprises Limited (“STE” or “Group”) for the Group’s performance in the financial year 2017 ending 31 December 2017 (*Reporting period*). In this first report, we have identified material ESG factors of our group, prepared in accordance to the GRI Standards.

FY2017 proved to be very challenging, as the Group was hit by a double whammy of an ongoing industry restructuring and a five-month long illegal occupation of the Group’s operating subsidiary, Changzhou 3D Technological Compete Set Equipment Co. Ltd (“CZ3D”) in Changzhou, China, by trespassers, which led to significant losses.

CZ3D was illegally occupied for a five-month period which was caused by the ex-CEO Mr Liu Ming who refused to relinquish his leadership position after being voted out at the AGM on 15th April 2017. Mr Liu Ming & his supporters illegally occupied CZ3D and blockaded the plant and halted normal business operations. This caused the Group to announce on 6th June 2017 CZ3D will be temporarily closed for business. The Plant was eventually regained by the new management and Board on 20 September 2017. The new CEO and Board set quickly its goals to restore the confidence of its various stakeholders, including its key customers, suppliers, employees as well as to chart a new course for the Group,

We had spent time together with our key management assessing the environmental, social and governance (ESG) factors that will be material, which clearly shows our deep commitment to sustainability. The Board has been involved in the process of determining these factors and will keep oversight on their governance and management in future.

As the year on been quite a disruptive year for the Group, and we had just re-started our business after the illegal occupation, we may not have operationalised some of our plans on the ground, the report does not cover policies, practices and performance for the identified material topics. We will continue to produce sustainability reports on an annual basis and will include disclosures on the material topics going forward.

1.2 Board composition, its committees & guidance

As at end of 2017, the board comprises of the following directors: -

Mr Jack Chia Seng Hee (Chairman)
 Dr Daniel Liu Dan Jun (Member)
 Mr Raymond Lim Sian Heong (Member)
 Mr Cheung Hok Fung Alexander (Member)

To assist in the execution of its responsibilities, the Board has established several Board Committees namely, Audit Committee (“**AC**”), Nominating Committee (“**NC**”) and Remuneration Committee (“**RC**”). These Board Committees function within clearly defined terms of reference, which are reviewed on a regular basis. The terms of reference of the respective committees have incorporated the recent changes under the Code. All Board Committees are chaired by an Independent Director and a majority of the members are Independent Directors.

The Board recognises that while these Board Committees have the delegated power to make decisions, execute actions or make recommendations in their specific areas respectively, and will report back to the Board with their decisions and/or recommendations, the ultimate responsibility for the decisions and actions rests with the Board.

The AC comprises of: -

Mr Jack Chia Seng Hee (Chairman)
Mr Raymond Lim Sian Heong (Member)
Mr Cheung Hok Fung Alexander (Member)

The RC comprises of: -

Mr Jack Chia Seng Hee (Chairman)
Mr Raymond Lim Sian Heong (Member)
Mr Cheung Hok Fung Alexander (Member)

The NC comprises of: -

Mr Jack Chia Seng Hee (Chairman)
Mr Raymond Lim Sian Heong (Member)
Mr Cheung Hok Fung Alexander (Member)

The Board possesses the relevant core competencies in areas such as accounting and finance, strategic planning, business and management experience. In particular, the Non-Executive Directors, who are mostly professionals and experts in their own fields, are able to take a broader view of the Group’s activities, contribute their valuable experiences and provide independent and objective judgement during Board deliberations or when challenging Management’s proposals or decisions constructively on business activities and transactions involving conflicts of interest and other complexities. The Non-Executive Directors also contribute to the Board process by monitoring and reviewing Management’s performance against goals and objectives. Their views and opinions provide alternate perspectives to the Group’s business.

During the year, the Non-Executive Directors helped develop both the Group’s short-term and long-term business strategies, corporate governance compliance and played an important role in tightening the internal control processes risk and compliance monitoring. They also communicated among themselves without the presence of management as and when the need arises. The Company also benefited from the management’s ready access to its directors for guidance and exchange of views both within and outside the formal Board or committees’ meetings.

1.3 Board's conduct of its affairs, performance & remuneration

The Board's conduct of its affairs are as follows: -

- sets the overall strategy of the Group, supervises and works with the management to make objective decisions in the interest of the Group including establishing goals and priorities for the management, and reviews the management's performance by monitoring the achievement of these goals;
- establishes policies on matters such as financial control, financial performance and risk management procedures, thereby taking responsibility for the overall corporate governance of the Group;
- sets objective performance criterion to evaluate the Board's performance and succession planning process;
- reviews the adequacy and effectiveness of the Group's risk management and internal controls framework including financial, operational, compliance and information technology controls and establishing risk appetite and parameters to safeguard shareholders' interests and the Company's assets;
- reviews and approves key operational and business initiatives, major funding proposals and other corporate actions, significant investment and divestment proposals, including determining the Group's operating and financial performance, the Group's annual budgets and capital expenditure, release of the Group's half-year and full-year financial results and other strategic initiatives proposed by Management;
- approves all Board appointments/re-appointments and appointment of Key Management Personnel, evaluates their performance and reviews their remuneration packages;
- identifies the key stakeholder groups and recognizes that their perceptions affect the Company's reputation;
- sets the Company's values and standards (including ethical standards), and ensures that obligations to shareholders and other stakeholders are understood and met; and
- considers sustainability issues (where applicable), e.g. environmental and social factors, as part of its strategic formulation.

The NC is responsible for assessing the Board as a whole and also each individual director's contribution.

To ensure confidentiality, the evaluation forms completed by directors were submitted to the Company Secretary for collation and the consolidated responses were presented to the NC for review and discussion. The NC has reported to the Board on its review of the Board's performance for the year.

The NC and the Board had approved and adopted a set of new performance criteria for the assessment of each individual director.

The Board has taken the view that the financial indicators, as set out in the Code as a guide for the evaluation of the board and its directors, may not be appropriate as these are more of a measurement of management's performance and therefore less applicable to directors.

The RC is responsible for ensuring a formal and transparent procedure for developing policy on executive remuneration, and for fixing the remuneration packages of individual directors and senior management. The RC's review will cover all aspects of remuneration including, but not limited to, directors' fees, salaries, allowances, bonus, share options and benefits in kind and specific remuneration packages for each director. In structuring a compensation framework for executive directors and key executives, the RC seeks to link a proportion of executive compensation to the Group's performance. The RC's recommendation is made in consultation with the Chairman of the Board and submitted for endorsement by the entire Board. No director is involved in deciding his own remuneration.

All Non-Executive Directors are paid directors' fees that are subject to shareholders' approval at the AGMs. Executive & Non-Executive Directors' remunerations for 2017 comprise of 100% salary & 100% directors' fees respectively.

Directors' Fees of an amount of RMB 1,800,000 is to be proposed for 2018 which is the same amount approved for 2017.

1.4 Board member nomination and re-election

The shareholders nominate the directors while the NC reviews their nominations.

The Company's Articles provide for the retirement and re-election of directors at every Annual General Meeting ("**AGM**").

Article 86(1) & (2) of the Company's Articles of Association require that every director on the Board shall retire at least once every three (3) years. A retiring director shall be eligible to offer himself for re-election. Pursuant to Article 85(6) of the Company's Articles of Association, any new director appointed during the year shall retire at the next AGM of the Company and shall then be eligible for re- election. The NC is responsible for the nomination of retiring Directors for re-election.

In reviewing the nomination of the retiring directors, the NC considered the composition and progressive renewal of the Board, and the competency, performance and contribution of each of the retiring directors, having regard not only to their attendance, preparedness and participation at Board and Board Committee meetings but also the time and effort devoted to the Group's business and affairs, especially their operational and technical contributions. Where appropriate,

the NC will also consider the director's independence.

1.5 Risk management processes

As the Company does not have a risk management committee, the Board, the AC and the management assume the responsibility of the risk management function. The management reviews regularly the Group's business and operational activities to identify areas of significant risks, as well as appropriate measures to control and mitigate these risks. The management reviews all significant policies and procedures and highlights all significant matters to the Board and the AC.

The Board has received written assurance from the Chief Executive Officer of Changzhou 3D ("CEO") and the Financial Controller ("FC") that:

- (a) The financial records of the Group have been properly maintained and financial statements for the financial year ended 31 December 2017 give a true and fair view of the Group's operations and finances; and
- (b) The system of risk management and internal controls in place within the Group is adequate and effective in addressing the material risks in the Group in its current business environment including material financial, operational, compliance and information technology risks. Business continuity measures are in place to ensure that corporate functions will remain active in the event of any disruption to factory operations.

2. Corporate Profile and Brief Financials

2.1 Our Business

Shanghai Turbo Enterprises Limited is an investment holding company incorporated in the Cayman Islands, however its sole operating subsidiary Changzhou 3D Technological Complete Set Equipment Co., Ltd., manufactures and sells precision vane products for steam turbine power generator manufacturers in China, Japan and South Korea. Changzhou 3D Technological Complete Set Equipment Co., Ltd is based in Changzhou, China, offers stationary and moving vanes and nozzles which are used as components in steam turbine generators for power generation in power plants, power stations and substations. The main raw materials are special grade steel alloy which are sourced within China. It also provides precision vane products related subcontracting services. The Group was founded in 2005 and listed in Singapore Stock Exchange in 2006.

2.2 Financial Summary of the last five years

Income Statement (in RMB'000)	FY2014 31/Dec/2014	FY2015 31/Dec/2015	FY2016 31/Dec/2016	FY2017 31/Dec/2017
Total Revenue	161,495	141,475	136,977	35,229
Gross Profit/(Loss)	63,708	39,935	30,644	(700)
Profit/(Loss) after tax	43,056	18,097	4,987	(156,012)
EPS (RMB)	0.13	0.40	0.08	(5.68)
Dividend Yield (%)	9.09	5.39	5.69	1.35

Source: Figures from the consolidated statements of the Group's annual reports, consolidating the results of Shanghai Turbo Enterprises Ltd, Best Success (HK) Limited & Changzhou 3D Technological Complete Set Equipment Co., Ltd

3. SUSTAINABILITY COMMITMENT AND APPROACH

For 2017, STE had engaged the time and effort of key management and directors and had adopted a reporting approach based on the Global Reporting Initiative ("GRI") Standards guidelines (Core Option) in the preparation of this report. This report is also available at STE's website at www.Shanghaiturbo.com

3.1 Participation of Key Management in formation of our sustainability strategy

Key management were involved and lead the Company's sustainability efforts. They are responsible for periodical meetings with the Board in determining sustainability issues in its business decisions. Sustainability and risk management are emphasized in the evaluation of any new orders or investment opportunities.

The process has identified initial material ESG factors for STE and are reflected in our materiality matrix under material considerations.

3.2 Materiality Identification Process

During our materiality assessment process, we have prioritized through the following steps:


1. Identify and Define important issues which might impact our business strategy
2. Sorting out critical factors that might affect our stakeholders
3. Prioritize selected factors and validate their severity within each business unit
4. Embed solutions in the system and monitor regularly
5. Adopt them to become our SOP or corporate culture when tested reliable




The Committees identified the specific ESG factors which are material to the Group based on their collective and respective knowledge, the industry perspective and their implications to our operations. Besides the regular in-house meeting on operational and financial progress, the committee members also engaged in regular dialogue sessions with the stakeholders for feedback and suggestions.







3.3 List of stakeholders

Some of the stakeholders that were identified were the government, customers, suppliers, shareholders, banks and employees. As this is our initial report, we have not been able to do an assessment of the material areas of concerns of some of these stakeholders, we will discuss further in our next sustainability report.

4. MATERIAL ESG FACTORS

Material factor	Why is it material	Proposed policies and practices	Potential measures of performance	Impacted SDGs
Environmental				
Work Place Air and Environment Certification	A good and healthy workplace will lead to better personal health of employees and higher productivity for the Company.	Our factory premises are fully air conditioned but with high ceiling and well ventilation of air. We conduct work place air and environment check annually to ensure the air supply is clean and healthy particularly the workers at the polishing work site.	<p>The company conducting the check is Qing San Lv Shui (Jiangsu) Environment Detection Limited (青山绿水(江苏)环境检验检测有限公司), last check being done in Feb 2017.</p> <p>Cleanliness of the air is measured by the size of air particles. The relevant standard used is GB/T 15432-1995 in which size of air particle smaller than 0.001mg/m₃ is deem hazardous. The most recent test is done in February 2017 in which an average reading of 1.0 mg/m₃ is obtained.</p>	

Waste Management	<p>Proper management of waste would ensure unhealthy and pollutive waste are not discharged to the environment causing environmental damage.</p>	<p>Our waste oil of machines is managed systematically and disposed by local disposal company including a strict transport standard operating procedure.</p>	<p>We have service contract with Changzhou FengHua Environment Protection Company (风华环保) for a yearly disposal of waste oil estimated at 70 tons. The transporting company is Changzhou WanTeng Transport Company (万腾运输) who responsible of the safety transfer and risk management along the way to the disposal site, last check being done in 2017.</p> <p>Water samples is taken from around the waste oil storage area to test for impurities. The relevant standard used is HJ 637-2012 in relation to testing for waste oil contamination in which a reading of more than 15 mg/L indicates contamination. The most recent test is done in November 2017 in which an average reading of 0.19 mg/L is obtained.</p>	
Social				
Training and development	<p>Training will enhance our own workforce and provide access to local talent for recruitment</p>	<p>Introduce training and development programs for our own employees as well as for potential workers in countries of operation.</p>	<p>- New employees have to undergo 24 hours of safety awareness lessons, 8 hours of pre-employment training (for operators) and 2 hours for company policies. Subsequently, employees will need to undergo 8 hours of safety awareness lessons and 8 hours of skills training (for operators) annually. The annual training was disrupted by</p>	 

			the illegal occupation in 2017 and will resumed in 2018.	
Occupational health and safety	Health and safety issues are a concern in the precision engineering industry and any lapses can have significant reputation damage as well as financial liability	We have in place the requirement for the occupational health and safety being assess and certified We are certified for occupational health and safety assessment series (GB/T 28001-2011/OHSAS 18001:2007 职业健康及安全体系认证).	The last occupational health and safety certification was obtained in Nov 2017. All employees have to go for annual occupational medical health check as part of the assessment. Employees who are engaged in special duties have to obtain relevant license to operate.	
Governance				
Responsible procurement	Our impacts and risks do lie just in our operations but also in our value chain and we can influence these by working with the right suppliers.	Implement responsible procurement policies in selection of construction vendors, material suppliers and project partners and monitor their ongoing performance. Gradually increase local sourced material to help local suppliers.	Needs to be updated.	 
Economic performance	Our objective is to distribute the economic performance fairly across our shareholders and the greater we do as a business, the more we can contribute	Continue enhancing value for our communities and employees, while bringing returns for our investors	Needs to be updated.	 
Anti-corruption	Corruption is a risk perceived in our business and across the geographies where we plan to operate. Any lapses can result in significant	Enforce our rigid anti-corruption policies and maintain a whistle blowing channel. Increase training on anti-corruption and bribery to employees going forward	- The Company had in place a whistle blowing framework in which employees could speak to the supervisory committee member or write in to changzhou3d@163.com	

	reputation damage and financial liabilities.		anonymously and is only accessible by members of the AC committee. Incidents of corruption - No whistle blowing report had been received by the AC for 2017.	
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5. STAKEHOLDERS RELATIONS

We welcome all stakeholders to approach us and support the sustainability of our business. We could be reached at our company website at www.shanghaiturbo.com or read our company latest information at www.SGX.com or actively participation in our AGM and annual events.

6. GRI CONTENT INDEX



General Standard Disclosure		Page, Reference and reasons for omission, if applicable
Organisation Profile		
102-1	Name of Organisation	Page 7, Pt 2.1
102-2	Activities, brands, products, and services	Page 7, Pt 2.1
102-3	Location of headquarters	Page 7, Pt 2.1
102-4	Location of operations	Page 7, Pt 2.1
102-5	Ownership and legal form	Page 7, Pt 2.1
102-6	Markets served	Page 7, Pt 2.1
102-7	Scale of the organisation	Page 8, Pt 2.2
102-8	Information on employees and other workers	Omission
102-9	Supply chain	Page 7, Pt 2.1
102-10	Significant changes to the organisation & its supply chain	Page 3, Pt 1.1
102-11	Precautionary principle or approach	Page 8, Pt 3.1
102-12	External initiatives STE has not adopted	Omission
102-13	Membership of associations	Omission

102-14	Statement from senior decision-maker	Page 3, Pt 1.1
102-15	Key impacts, risks, and opportunities	Page 3, Pt 1.1
102-16	Values, principles, standards and norms of behaviour	Omission
102-17	Mechanisms for advice and concerns about ethics	Omission
Governance		
102-18	Governance structure	Page 3, Pt 1.2
102-19	Delegating authority	Page 3, Pt 1.2
102-21	Consulting stakeholders on economic, environmental, and social topics	Page 8, Pt 3.2
102-22	Composition of the highest governance body and its committees	Page 3, Pt 1.2
102-23	Chair of the highest governance body	Page 3, Pt 1.2
102-24	Nominating and selecting the highest governance body	Page 6, Pt 1.4
102-25	Conflicts of interest	Omission
102-26	Role of highest governance body in setting purpose, values, and strategy	Page 3, Pt 1.2
102-27	Collective knowledge of highest governance body	Page 3, Pt 1.2
102-28	Evaluating the highest governance body's performance	Page 5, Pt 1.3
102-29	Identifying and managing economic, environmental, and social impacts	Page 8, Pt 3.2
102-30	Effectiveness of risk management processes	Page 7, Pt 1.5
102-31	Review of economic, environmental, and social topics	Page 9, Pt 4. Material ESG Factors
102-32	Highest governance body's role in sustainability reporting	Page 3, Pt 1.1
102-33	Communicating critical concerns	Omission
102-34	Nature and total number of critical concerns	Omission
102-35	Remuneration policies	Page 5, Pt 1.3
102-36	Process for determining remuneration	Page 5, Pt 1.3
102-37	Stakeholders' involvement in remuneration	Page 5, Pt 1.3
102-38	Annual total compensation ratio	Page 5, Pt 1.3
102-39	Percentage increase in annual total compensation ratio	Page 5, Pt 1.3
Stakeholder Engagement		
102-40	List of stakeholder groups	Page 9, Pt 3.3
102-41	Collective bargaining agreements	Omission
102-42	Identifying and selecting stakeholders	Page 5, Pt 1.3
102-43	Approach to stakeholder engagement	Page 8, Pt 3.2
102-44	Key topics and concerns raised	Omission
102-45	Entities included in the consolidated financial statements	Page 8, Pt 2.2
102-46	Defining report content and topic boundaries	Page 2, Contents
102-47	List of material topics	Page 2, Contents
102-48	Restatements of information	Not Applicable
102-49	Changes in reporting	Not Applicable

102-50	Reporting period	Page 3, Pt 1.1
102-51	Date of most recent report	NA
102-52	Reporting cycle	Page 3, Pt 1.1
102-53	Contact point for questions	Page 12, Pt 5
102-54	Claims for reporting in accordance with the GRI standards	Page 3, Pt 1.1
102-55	GRI content index	Page 12, Pt 6
102-56	External assurance	Not Applicable
Management approach		
103-1	Explanation of the material topic and its boundary	Page 12, Pt 6
103-2	The management approach and its components	Page 3, Pt 1.1
103-3	Evaluation of the management approach	Page 3, Pt 1.1
Specific Standard Disclosures		
Economic		
Topic: Economic Performance		
201-1	Direct economic value generated and distributed	Page 8, Pt 2.2
201-2	Financial implications and other risks and opportunities due to climate change	Omission
201-3	Defined benefit plan obligations and other retirement plans	Not Applicable
201-4	Financial assistance received from government	Not Applicable
Topic: Market Presence		
202-1	Ratios of standard entry level wage by gender compared to local minimum wage	Omission
202-2	Proportion of senior management hired from the local community	Omission
Topic: Indirect Economic Impacts		
203-1	Infrastructure investments and services supported	Omission
203-2	Significant indirect economic impacts	Omission
Topic: Procurement Practices		
204-1	Proportion of spending on local suppliers	Omission
Topic: Anti-corruption		
205-1	Operations assessed for risks related to corruption	Omission
205-2	Communication and training about anti-corruption policies and procedures.	Page 11, Pt 4. Material ESG Factors- Anti-Corruption
205-3	Confirmed incidents of corruption and actions taken	Not Applicable
Topic: Anti-competitive Behaviour		
206-1	Legal actions for anti-competitive behaviour, anti-trust, and monopoly practices	Omission
Topic: Effluents and Waste		

306-2	Waste by type and disposal method	Page 10, Pt 4. Material ESG Factors- Waste management
Topic: Supplier Environmental Assessment		
308-1	New suppliers that were screened using environmental criteria	Omission
Aspect: Customer Privacy		
418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data.	Omission

Note: STE takes a phased approach to the adoption of GRI indicators and will review the relevance of indicators marked "N/A" to its operations annually