FABCHEM CHINA LIMITED
(Company Registration No.: 200413128G)
(Incorporated in the Republic of Singapore)

RESPONSE TO SGX'S QUERY ON RESULTS ANNOUNCEMENT FOR THE FULL FINANCIAL YEAR ENDED 31 MARCH 2020

The Board of Directors (the "Board") of Fabchem China Limited (the "Company") refers to the following query raised by the Singapore Exchange Securities Trading Limited ("SGX-ST") on its Results Announcement for the full financial year ended 31 March 2020 ("FY2020") released on 30 July 2020, and wishes to provide the following clarifications:

SGX Query 1:

On page 10 of the Company's Full Yearly Results for financial year ended 31 March 2020, the Company disclosed that "Post resumption, the delay in the commencement of our production activities and the additional safety precautionary measures imposed on our production facilities had affected our manufacturing capacity since February 2020" Please disclose the Company's current manufacturing capacity.

Company's response:

Due to the additional safety and precautionary measure as required due to 2019 Novel Coronavirus ("COVID-19"), our manufacturing capacity were reduced by an estimated average of 50.0% to 66.7%, which was curtailed to only one working shift per day. During April 2020, the authorities gradually moderated the requirements and our manufacturing capacity has progressively returned back to normal.

SGX Query 2:

On page 11 of the Company's Full Yearly Results, the Company disclosed that "For FY2020, other gains relate to write back of allowance for impairment on trade receivables of approximately RMB 6.7 million" Please disclose what does the trade receivables of RMB 6.7million relate to and the age of the debt collected.

Company's response:

Write back of allowance for impairment on trade receivables of approximately RMB 6.7 million consists of:

	RMB'000	Note
Write back of individual impairment allowance	2,790	i
Write back of collective impairment allowance	3,870	ii
Total	**6,660**	

(i) Approximately RMB 2.8 million was relating to collection from individual debtors whose debts were more than 1 year and were previously impaired,

(ii) In accordance with the new SFR(I) 9 adopted during the last financial year, trade receivables are subject to the expected credit loss ("ECL") model under the financial reporting standard on financial instruments. The methodology applied for impairment loss is the simplified approach to measuring ECL which uses a lifetime expected loss allowance for all trade receivables. The expected lifetime losses are recognised from initial recognition of these assets. These assets are grouped based on shared credit risk characteristics and the days past due for measuring the expected credit losses. The allowance matrix is based on its historical observed default rates over the expected life of the trade receivables and is adjusted for forward-looking estimates.

As at 31 March 2020, the historical observed default rates were updated and changes in the forward-looking estimates were analysed and approximately RMB 3.9 million was written back accordingly.

SGX Query 3:

The Company disclosed that "Allowances for impairment on trade receivables were based on a forward-looking expected credit loss ("ECL") model in accordance to the new SFRS(I) 9" Please provide details of these trade debtors and reasons why the debts were assessed to be impaired by management. What is the aging of these debts and are the customers still doing business with the Company and are they still in operation.

Company's response:

In accordance with the new SFRS(I) 9 adopted during the last financial year, trade receivables are subject to the expected credit loss ("ECL") model under the financial reporting standard on financial instruments. The methodology applied for impairment loss is the simplified approach to measuring ECL which uses a lifetime expected loss allowance for all trade receivables. The expected lifetime losses are recognised from initial recognition of these assets. These assets are grouped based on shared credit risk characteristics and the days past due for measuring the expected credit losses. The allowance matrix is based on its historical observed default rates over the expected life of the trade receivables and is adjusted for forward-looking estimates.

There are no specific trade debtors based on the forward-looking ECL model and the allowance was provided based on the allowance matrix in accordance with SFRS(I) 9.

SGX Query 4:

The Company also disclosed that "Gain on disposal of land use rights during FY2019 was due a piece of land being repossessed by the local government which is not utilised by our Group." Please provide details of the compensation and details, including when the land was acquired, cost of the land, the location and size of the land.

Company's response:

The land, with a size of approximately 90,464.1 square meters, was acquired during financial year ended 31 March 2009 with an estimated value of RMB 20.6 million. The location of the land was Shanting District, North Town, Tieshan Village, East of Huangshan, Zaozhuang City.

The consideration of the land was not finalised with the local government authorities and as at 31 March 2010, the cost of the land use rights included in the financial statements, has been adjusted to be RMB 17.0 million based on an independent valuation report then.

During the last financial year ended 31 March 2019 ("FY2019"), the land was repossessed by local government authorities as the land was not developed and the subsidiary has also not paid the consideration of RMB 17.0 million. Accordingly, all the assets and liabilities associated to the land use right was written off as at 31 March 2019.

SGX Query 5:

On page 12 of the Company's Full Yearly Results, the Company disclosed that "Administrative expenses increased marginally by approximately RMB 2.8 million or 8.8% to approximately RMB 35.0 million in FY2020 as compared to the previous financial year mainly due to an increase in research and development expenses." Please provide breakdown of the RMB 35 million and the amount attributable to the research and development costs and the reasons why the costs increased so significantly despite the COVID shutdown.

Company's response:

Breakdown of administrative expenses of approximately RMB 35.0 million as follows:

	FY2020 RMB'000
Audit and related expenses	830
Depreciation of property, plant and equipment	1,706
Depreciation of right-of-use assets	2,609
Directors' fees	944
Insurance and related expenses	1,585
Legal and professional fees	653
Provision for safety expenses	2,274
Research and development costs (1)	6,587
Salaries and related expenses	11,656
Taxes on land use rights, property rights, etc	1,392
Others	4,739
Total	34,975

(1) Research and development costs increased by approximately RMB 3.2 million or 97.0% to RMB 6.6 million during FY2020 mainly due to higher research and development activities for our existing products, in particular boosters. Research and development costs were incurred for the full financial year ended 31 March 2020 and the COVID-19 shutdown only happened in February 2020.

SGX Query 6:

On page 14 of the Company's Full Yearly Results, the Company disclosed that "Aligned with this government policy and to meet the various requirements of the MTP Exit Criteria under Rule 1314(2) of the SGX-ST's Listing Manual, the Group is proactively exploring merger and acquisition opportunities in the PRC." Noting that SGX RegCo has removed the minimum trading price (MTP) rule for Mainboard issuers with effect from 1 June 2020, please explain what the Company means by "to meet the various requirements of the MTP Exit Criteria under Rule 1314(2) of the SGX-ST's Listing Manual".

Company's response:

On page 14, second point under paragraph 10, should be amended to read:

> *Mergers and Acquisitions*
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> Since 2017, the PRC government has begun to rationalise the commercial explosives industry by encouraging companies within this specialized and niche market segment to merge and consolidate their business operations. Aligned with this government policy, the Group is proactively exploring merger and acquisition opportunities in the PRC.
>
> On 18 June 2018, the Company announced the proposed acquisition of Shandong Laizhou Ping'an Commercial Explosives Co., Ltd. ("Laizhou Ping'an"). On 31 January 2019, the Company released an announcement to update the status of the acquisition, in which the proposed acquisition will be postponed. For more information on the proposed acquisition of Laizhou Ping'an, please refer to the announcements on 18 June 2018 and 31 January 2019.
>
> The Company will continue to make the appropriate announcements as and when there is any material development with respect to any potential material acquisition.

SGX Query 7:

The Company also disclosed that "On 18 June 2018, the Company announced the proposed acquisition of Shandong Laizhou Ping'an Commercial Explosives Co., Ltd. ("Laizhou Ping'an"). On 31 January 2019, the Company released an announcement to update the status of the acquisition, in which the proposed acquisition will be postponed." Noting that the last update was on 31 January 2019, more than 1.5 years ago, please disclose the progress made since then and whether the long stop date has lapsed.

Company's response:

As mentioned in the Company's update on 31 January 2019, the Company had informed that the proposed acquisition of Laizhou Ping'an was put on hold pending the resolution of due diligence issues in respect of the Target Group. Since then, the Target Group has been trying to resolve such due diligence issues. The Company is still negotiating with the Vendor on exploring the possible options with regard to the proposed acquisition, including but not limiting to the agreement to a long stop date to resolve outstanding issues.

By Order of the Board
Fabchem China Limited

Bao Hongwei
Managing Director

Date: 11 August 2020