

Issuer: Fabchem China Limited
Security: Fabchem China Limited

Meeting details:

Date: 31 July 2017

Time: 9.30 a.m.

Venue: 2 Bukit Merah Central, Level 1 Drucker/Juran Boardroom, Singapore 159835

Company Description

Fabchem China Limited, an investment holding company, manufactures and sells commercial explosive products in the People's Republic of China. It operates through four segments: Explosives Devices, Industrial Fuse and Initiating Explosives Devices, Industrial Detonators, and Ammonium Nitrate. The company offers explosive devices, such as boosters that are used to enhance the power of the explosions; industrial fuse and initiating explosive devices, such as detonating cords and non-electric tubes, which are used to initiate the detonation process; and industrial detonators, such as non-electric detonators and piston non-electric detonators that are used to initiate explosions, either through boosters or applied directly on the explosives. It provides its products under the Yinguang brand, as well as other third parties' brands. The company offers its products for use in mining, hydroelectric, and infrastructure construction industries; and for activities, such as coal mining, oil exploration, construction of hydroelectric dams, roads and railways, and large construction projects. It also exports its products through export distributors to customers in approximately 10 countries, including Australia, South Africa, Mongolia, India, Kazakhstan, and Kyrgyzstan. Fabchem China Limited was founded in 1979 and is based in Singapore.

(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=BFT)

Q1. In the Letter to Shareholders (page 4 of the annual report), it was disclosed that the group embarked on the upgrading of the boosters production facility. In addition, the whole industry was “subjected to more stringent safety requirements from the relevant authorities” after incidents at unrelated production facilities.

- a) **How many boosters production lines does the group have? How many of these are manual production lines and how many of these have been upgraded to automated booster production lines?**
- b) **Have the relevant authorities mandated that all booster production lines are to be automated? Are any of the production lines suspended due to such changes in safety requirements?**
- c) **Can management let shareholders know if the boosters upgrading program has been completed?**

In the last two financial years, the group has spent more than RMB10.4 million in capital expenditure in the explosives devices segment (boosters and seismic charges) (page 62).

- d) **Of the RMB10.4 million, how much is spent on automating the booster production line(s)? What is the capital expenditure for upgrading each line?**
- e) **Please provide a schedule of any upgrading and/or disruption to the booster production lines, including when production lines are expected to start/resume production.**
- f) **What is the planned capacity of the group’s booster production lines in this new financial year?**

Q2. Based on the disclosure in Note 4 (page - Financial information by operating segments), the revenue from explosive devices dropped from RMB89.0 million in 2016 to RMB33.4 million in 2017 as a result of the production disruptions.

- a) **What was the average selling price of the explosive devices (namely boosters) in 2016 and in 2017? Given the disruption to the supply chain, was the group able to command a better selling price for its products?**

Further, in Note 4F (page 66), it can be seen that revenue outside PRC dropped from RMB76.3 million in 2016 to RMB31.0 million in 2017, with export sales to Australia dropping from RMB70.1 million in 2016 to RMB26.9 million in 2017.

- b) **Can management help shareholders understand if the drop was due solely to the group’s issues in its supply chain?**
- c) **Please also provide shareholders with an overview of the market conditions in the key export markets, especially Australia. Is the demand for the group’s products (mainly boosters) still strong?**

Q3. In the Corporate Governance Report (page 38 - Immediate families of Directors), the company made the following disclosure:

c) Immediate families of Directors

Sun Qiang is the son of the Managing Director whose remuneration exceeded S\$50,000 during the financial year ended 31 March 2017. Apart from him, no employee of the company and its subsidiary is an immediate family member of a director and whose remuneration exceeded S\$50,000 during the financial year ended 31 March 2017.

Guideline 9.4 of the Singapore Code of Corporate Governance 2012 (Code) issued by the Monetary Authority of Singapore states that:

For transparency, the annual remuneration report should disclose the details of the remuneration of employees who are immediate family members of a director or the CEO, and whose remuneration exceeds S\$50,000 during the year. This will

be done on a named basis with clear indication of the employee's relationship with the relevant director or the CEO. Disclosure of remuneration should be in incremental bands of S\$50,000. The company need only show the applicable bands.

For the financial year ended 31 March 2016, the company had disclosed that Mr Sun Qiang remuneration did not exceed S\$50,000.

- a) **For the financial year ended 31 March 2017, to comply with the requirements of the Code, can the company confirm that Mr Sun Qiang's remuneration for 2017 was in the remuneration band of S\$50,000-\$100,000. If not, please disclose the remuneration band of Mr Sun Qiang (in incremental bands of S\$50,000) as required by the Code.**