
RESPONSE TO SIAS'S QUERIES ON THE ANNUAL REPORT FOR THE FINANCIAL PERIOD ENDED 30 JUNE 2021

The Board of Directors (the "Board") of Fabchem China Limited (the "Company") refers to the following queries raised by the Securities Investors Association (Singapore) ("SIAS") on its Annual Report for the financial period ended 30 June 2021 ("FY2021") released on 13 October 2021, and wishes to provide the following clarifications:

SIAS Query 1:

On 3 June 2021, the company received a notice of compliance issued by SGX RegCo to appoint another valuer of international standing and repute, acceptable to and subject to the approval of SGX-ST, to report on the valuation of the proposed disposal.

The company had proposed the disposal of its principal subsidiary to an interested person for \$18.0 million. The two independent valuations carried out was based on the income approach and both concluded that the equity value of the subsidiary is substantially below its NAV and RNAV (which had an indicative value of RMB271.7 million (S\$54.6 million)).

The reasons used to support the transaction based on the appraised value of \$8.4 million to \$8.6 million can be found on pages 15 of the EGM circular dated 22 September 2021. These include:

- the NAV/RNAV approach does not take into consideration the income-producing ability
- the equity value based on the income approach is low as it is loss making
- the operating assets cannot be realised or sold piecemeal
- the NAV/RNAV is a concept of a hypothetical ability to recreate an asset or portfolio

The recommending directors have recommended shareholders to vote in favour of the resolutions, having considered and reviewed, inter alia, the valuation reports as well as the IFA advice. The proposed disposal was approved by independent shareholders holding 16.6 million shares at the EGM held on 14 October 2021.

- (i) Given that the continued losses of the subsidiary was used as a reason to justify the NAV/RNAV was not realisable, can the audit committee help shareholders understand if the financial position of the group had been overstated in prior years?
- (ii) What deliberations did the AC have over management's assumptions and the integrity of inputs used in the value-in-use calculation in prior years?
- (iii) Can the AC help shareholders understand if the financial statements give a true and fair view of the group's operations and finances?
- (iv) Given that the independent valuer, AVA Associates Limited, has been engaged multiple times by the company for its corporate actions in the past, including in 2016, in 2017 and in 2019, would the independence of the valuer be impaired, or reasonably perceived to be impaired?

Company's response:

- (i) Please refer to the Company's Circular dated 22 September 2021 and the Summarised AVA Valuation Report and Summarised D&P Valuation Report included in the Circular dated 22 September 2021 for the methodologies and material assumptions for the valuation of Yinguang Technology. The financial statements of the Group was prepared in accordance with Singapore Financial Reporting Standards (International) ("**SFRS (I)s**") and the related Interpretations to SFRS (I) ("**SFRS (I) INT**") as issued by the Singapore Accounting Standards Council. The financial statements of the Group were audited by the Company's independent auditor, RSM Chio Lim LLP.
- (ii) The Audit Committee ("**AC**") considered the approach and methodology applied to the valuation models used in the impairment assessment of property, plant and equipment and right-of-use assets at each financial reporting year end date. The AC reviewed the underlying key assumptions used in the value-in-use calculation which involved the management's assessment of the future cash flow forecasts, terminal growth rates and discount rates used in these calculations at each financial reporting year end date. The

- AC was satisfied with the methodology and underlying assumptions used in the value-in-use calculation at each financial reporting year end date.
- (iii) Please refer to the Opinion of the Directors disclosed under the Statement by Directors in the Company's Annual Reports.
 - (iv) Please refer to the Company's announcement on 4 June 2021 and the Company's Circular dated 22 September 2021 for the Board's bases for appointing AVA Associates Limited as the Independent Valuer and that the Board is of the view that the Independent Valuer is suitably qualified and was suitably appointed by the Company pursuant to Rule 1014(5) of the Listing Rules, which requires that a competent, independent valuer be appointed to value the assets to be disposed. As stated at page 15 of the Company's Circular of 22 September 2021, the D&P Appraised Value of S\$8.4 million (from the other valuation of Yinguang Technology by Duff & Phelps conducted pursuant to the Notice of Compliance) does not depart significantly from the Appraised Value of S\$8.6 million by the Independent Valuer and both valuations are well below the Disposal Consideration of S\$18.0 million that the Purchaser is paying the Company for Yinguang Technology under the terms of the SPA.

SIAS Query 2:

In addition, the company is embarking on the acquisition of a new business in parallel with the disposal of the subsidiary. It has proposed to acquire Lincotrade & Associates Pte Ltd for an aggregate purchase consideration of \$25.0 million through the issuance of an aggregate 113,636,363 new shares by the company at an issue price of \$0.22 per consideration share.

This will result in a transfer of a controlling interest in the company and is deemed a reverse takeover of the company.

- (i) Can the board, especially the independent directors, help shareholders understand if a formal and systematic deal sourcing was carried out to source for a new target business?
- (ii) What were the roles of the independent directors in the deal sourcing? What was the level of involvement by the independent directors in the due diligence carried out on the proposed target?
- (iii) How was the company introduced to the arranger of the proposed acquisition? Please identify the arranger.
- (iv) What is the progress made in identifying and appointing a sponsor for the company?
- (v) All the directors have each served from 11 to more than 16 years on the board, and over this period, the group's accumulated losses increased to RMB(121.7) million (page 66 – Statements of financial position) as at 30 June 2021. In addition, the disposal of the subsidiary was carried at below NAV. What is the assurance for shareholders that the board is able to create long term value with the proposed acquisition of Lincotrade & Associates Pte Ltd? Also, can the board/management demonstrate its experience and knowledge of the proposed business segment?

Company's response:

- (i) The management was tasked by the Board to source for possible acquisition targets to present to the Board for consideration. The Company was also approached by introducers such as the Arranger to consider acquisition targets.
- (ii) The Board was presented with proposals that were considered and evaluated by the management. The Board (including the Independent Directors) and the management of the Company will also be advised by the sponsor and other professional advisers of the Company on the due diligence over the proposed target. The Company had on 20 August 2021 announced the resumption of the due diligence and preparatory activities for the Proposed Acquisition and there is no change to this position. The Company will make further and relevant announcements on the Proposed Acquisition at the appropriate times.
- (iii) The Vendors were introduced to the Company by the Arranger. Please refer to the Company's announcement on 22 April 2021 for more details on the Arranger.
- (iv) Please refer to the Company's announcement on 5 May 2021 on the appointment of sponsor.
- (v) Please refer to section 4.6 of the Company's announcement on 22 April 2021 for information on "Changes to the Board".

SIAS Query 3:

In Note 3B (page 81 – Related party transactions), the company disclosed the following significant RPTs:

Significant related party transactions

In addition to transactions and balances disclosed elsewhere in the notes to the financial statements, this item includes the following:

	Group	
	01.04.2020 to 30.06.2021	01.04.2019 to 31.03.2020
	RMB'000	RMB'000
Sales of goods received/receivables from related parties	7,469	–
Repair and maintenance paid/payable to related parties	(30)	–
Security services paid/payable to related parties	(7,517)	(6,200)
Advisory fees paid to ultimate controlling party	(258)	(411)
Estate management fees paid/payable to related parties	(105)	(88)

Related parties refer to companies in which a director or his immediate family has significant or controlling interest.

(Source: company annual report)

- (i) Can the audit committee elaborate further on the goods received/receivable from related parties? Can the AC help shareholders understand how it had reviewed the transactions?
- (ii) In addition, advisory fees were paid by the group to the ultimate controlling party amounting to RMB258,000 in FP2021 and RMB411,000 in FY2020. Please disclose the nature of the advisory services. What were the scope and the deliverables of the advisory services? How were the fees determined?

Company's response:

- (i) Sales of goods received/receivables from related parties were sales of commercial explosives products to related parties conducted under a general mandate approved at the Extraordinary General Meeting held on 31 July 2017 and was updated and approved at the AGM held on 28 September 2020. Please refer to the Company's Circular dated 14 July 2017 for more information on the review procedures.
- (ii) The ultimate controlling party provides advisory services to the Board. The fees were determined based on negotiation by both parties at arm's length. Rule 906(1) of the Listing Rules does not apply to payment of the advisory fee as such amount is less than S\$100,000 per annum.

By Order of the Board

Wee Phui Gam
Acting Chairman and Lead Independent Director
27 October 2021