Securities Investors Association (Singapore)
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Email: admin@sias.org.sg www.sias.org.sg
UEN No: S99SS0111B
GST Reg No: M90367530Y

Issuer: Fabchem China Limited

Stock code: BFT

Meeting details:
Date: 28 October 2021
Time: 9.30 a.m.

Due to the current COVID-19 pandemic, SIAS encourage shareholders to participate at AGMs via other means and not to attend any AGM physically. Where the AGM is webcast, they can stay on top of their investments by watching the webcast and submitting their question to the company in advance. Senior citizens should avoid attending AGMs altogether and stay home.

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Q1. 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?**

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Q2. 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?**

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Q3. 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?**

^On 1 October 2020, the Accounting and Corporate Regulatory Authority ("ACRA"), the Monetary Authority of Singapore ("MAS") and Singapore Exchange Regulation ("SGX RegCo") published an updated checklist to guide listed entities on the conduct of general meetings arising from the latest updates from the Multi-Ministry Taskforce.

Issuers may continue to conduct their general meetings held on or before 30 June 2021 via electronic means, and are encouraged to do so. On 9 April 2021, it was announced that the alternate arrangements for meetings ("Meetings Order") would be extend beyond 30 June 2021 until it is revoked or amended by the Ministry of Law. Accordingly, until such time, issuers may continue to utilise the Checklist issued by ACRA, MAS and SGX RegCo to guide entities on the conduct of their general meetings.

^ Guidance on the Conduct of General Meetings Amid Evolving COVID-19 Situation (https://www.sgx.com/media-centre/20201001-guidance-conduct-general-meetings-amid-evolving-covid-19-situation)

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Issuers who, after due consideration of public health and other risks, wish to provide for physical attendance at their general meetings must ensure that they implement all relevant measures to comply with the safe management measures imposed by the Singapore Government.

Shareholders are welcome to use and/or adapt the questions prepared by SIAS and to forward them to the company.

Can't attend the AGM or view the webcast? Check out the latest questions on the annual reports of listed companies on SIAS website

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