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

RESPONSE TO SGX'S QUERIES ON RESULTS ANNOUNCEMENT FOR THE 3rd QUARTER ENDED 31 DECEMBER 2018

The Board of Directors (the "Board") of Fabchem China Limited (the "Company") refers to the following queries raised by the Singapore Exchange Securities Trading Limited ("SGX-ST") on its Results Announcement for the 3rd Quarter ended 31 December 2018 ("3Q2019") released on 14 February 2019, and wishes to provide the following clarifications:

<u>SGX Query 1:</u>

On page 11 of the Company's 3Q2019 results, the Company disclosed that "Allowance for impairment on trade receivables for 3Q2019 and 9M2019 was based on a forward-looking expected credit loss ("ECL") model in accordance to the new SFRS(I) 9 which come into effect from 1 April 2018". Please:

(i) Quantify the effect of adopting SFRS(I) 9; and
(ii) Elaborate on how the forward-looking expected credit loss model affected the Company's quantification of its allowance for impairment on trade receivables and how the impairment was previously recognized by the Company.

<u>Company's response:</u>

1(i) Effect of adopting Singapore Financial Reporting Standards (International) ("SFRS(I)") 9:

	RMB'000	**3Q2019 Results Announcement Page Reference**
Opening retained earnings as at 1 April 2018	6,755	6 and 12
3Q2019 and 9M2019 under "Other Losses"	3,684	1, 2 and 11

1(ii) SFRS(I) 9 contains new requirements for classification and measurement of financial instruments, a new expected credit loss model for calculating impairment of financial assets, and new general hedge accounting requirements.

The Group has opted for the exemption in SFRS(I) 1 allowing it not to restate comparative information in the financial year ended 31 March 2018 ("FY2018") SFRS(I) financial statements when adopting SFRS(I) 9. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of SFRS(I) 9 are recognised in opening retained earnings as at 1 April 2018.

SFRS(I) 9 requires that at initial recognition of the Group's trade and other receivables, the Group recognises a loss allowance equal to 12 months expected credit losses which consist of expected credit losses from default events possible within 12 months from the entity's reporting date. This is applicable when there is no significant increase in credit risk and expected losses are updated at each reporting date. If there is a significant increase in credit risk, the recognition of lifetime expected losses is required. The methodology applied by the Group for impairment loss on trade receivables is the simplified approach to measuring expected credit losses (ECL) which uses a lifetime expected loss allowance for all trade receivables. Expected credit losses are calculated by using the allowance matrix approach (SFRS(I) 9.B5.5.35).

Previously, the Group adopted an incurred loss model that was based on the management's assessment on the Group's individual trade and other receivables as at the end of the period under review, in accordance to the previous Singapore Financial Reporting Standards.

SGX Query 2:

On page 12 of the Company's 3Q2019 results, the Company disclosed that "Other assets, current comprising the Group's prepayments, increased by approximately RMB 4.8 million or 51.4% to RMB 14.0 million as at 31 December 2018 mainly due to higher prepayments for raw materials as at 31 December 2018". Please elaborate why did prepayments for raw materials increased by RMB 4.8 million or 51.4% to RMB 14 million when inventory decreased by 22% to RMB 25 million. Please explain why such a significant amount had to be made to suppliers of raw materials.

Company's response:

Breakdown of "Other assets, current" amounting to RMB 14.032 million as at 31 December 2018:

	As at 31 Dec 2018 RMB'000	**As at 31 March 2018 RMB'000**	**Nature**
Deposits to secure services	63	64	Deposit to secure services for operating activities
Prepayments	667	215	Prepayments to suppliers for operating expenses
Advances to suppliers	11,616	7,508	Advances to suppliers for purchase of raw materials and miscellaneous production and operating activities
Advances to staff	1,686	1,481	Advances to staff for traveling expenses and purchase of raw materials
Total	**14,032**	**9,268**	

Payments for the above-mentioned are made when the respective contractual obligations fall due, eg. prepayments for annual insurance, or on an ad-hoc basis when the need arises, eg. advances to suppliers to purchase raw materials when the production requirement arises.

Advances to suppliers mainly relate to prepayments for bulk purchase of raw materials which increased by RMB 4.1 million or 54.7%. This is due to the management's projection on our production requirements for the coming months and in order to manage our costs efficiency, we made advance and bulk purchases on our raw materials. Those advance and bulk purchase of raw materials not received by the Group remains as advances to suppliers in our books.

Breakdown of "Inventories" amounting to RMB 25.018 million as at 31 December 2018:

	As at 31 Dec 2018 RMB'000	**As at 31 March 2018 RMB'000**
Raw materials	12,088	7,271
Work-in-progress	6,114	7,430
Finished goods	6,816	17,367
Total	**25,018**	**32,068**

Inventories decreased by RMB 7.1 million or 22.0% mainly due to lower volume of finished goods as at 31 December 2018. Raw materials increased by RMB 4.8 million or 66.2% mainly due to bulk purchase of raw materials received by the Group as at 31 December 2018.

SGX Query 3:

On page 13 of the Company's 3Q2019 results, the Company disclosed that "Yinguang Technology's second automated boosters production line has successfully passed the relevant authority's inspection and was approved for trial production during April 2017". As the approval was given in April 2017, almost 2 years ago, please elaborate how long does a gradual scaling up normally take and disclose the current utilisation rate.

Company's response:

Given the sensitive product-nature of commercial explosives, the safety aspects of our operations and products are vital to our business and employees.

As our automated boosters production line is an in-house technology with no other comparable, we are constantly monitoring and calibrating the technology to improve safety and production efficiency, hence it is difficult for the Group to estimate the duration to fully scale-up the entire production line.

As informed in our 3Q2019 results announcement, the third automated boosters production line is expected to complete during the first quarter of the next financial year, i.e. by 30 June 2019.

Our current utlisation rate for boosters production for the 9 months ended 31 December 2018 is 68.5%.

SGX Query 4:

On page 14 of the Company's 3Q2019 results, the Company disclosed that "The management is currently assessing the situation and the potential impairment impact on our detonating cords and non-electric detonators' property, plant and equipment. The management will continue to monitor the market conditions and update shareholders if there are any other material developments". Please disclose:

(i) when the directive was issued;
(ii) if all of the Company's fixed assets will be affected because of this? If so, please quantify the value of the fixed assets that are affected;
(iii) if all of the property, plant and equipment of Shandong Laizhou Ping'an Commercial Explosives have the capability to manufacture digital electronic detonators.

Company's response:

4(i) The directive on detonators issued by the commercial explosives governing authority in China was dated 13 November 2018 and the Company received the directive on 27 November 2018.

4(ii) As the directive on detonators provides mainly recommendation on detonators, only the Group's detonators' property, plant and equipment will be affected by the directive. According to the directive, detonators manufacturers should switch to digital electronic detonators by 2022. The detonating cords' property, plant and equipment will be affected by the lower market demand as mentioned in 3Q2019 results announcement.

As noted in the 3Q2019 results announcement, the management is still assessing the potential impairment impact on the respective property, plant and equipment. However, for information purpose, the net book value of the allocated property, plant and equipment for detonators and detonating cords was approximately RMB 93.0 million as at 31 December 2018.

4(iii) As mentioned in our announcement on 18 June 2018 on the proposed acquisition of Shandong Laizhou Ping'an Commerical Explosives Co., Ltd and its subsidiaries ("Target Group"), the Target Group is in the business of trading in commercial explosives products, provides blasting services and in the business of transportation of explosives goods. The Target Group does not have any capacity to manufacture digital electronic detonators.

By Order of the Board
Fabchem China Limited

Bao Hongwei
Managing Director

Date: 26 February 2019