



FABCHEM CHINA LIMITED

BUILDING RESILIENCY

ANNUAL REPORT 2019



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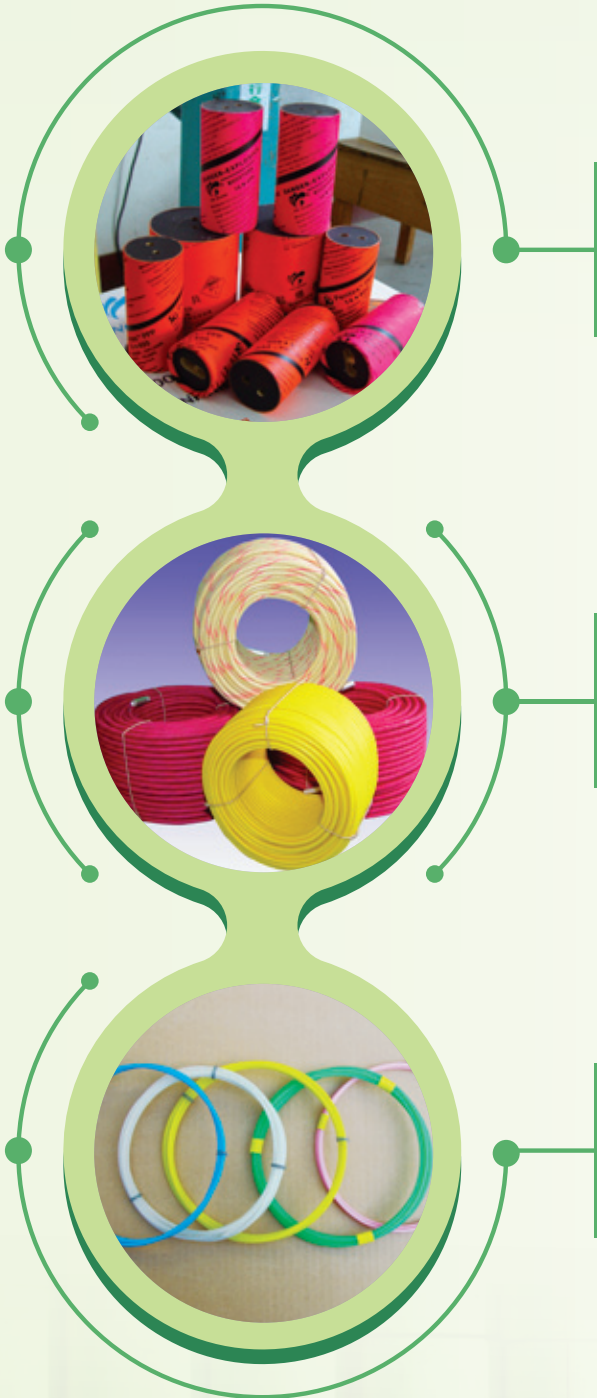
As the only China-based commercial explosives manufacturer with a listing status overseas, Fabchem China Limited (“Fabchem”) has been established in Shandong, China since 1979, and listed on the Mainboard of Singapore Exchange Securities Trading Limited in April 2006.

As one of China’s leading manufacturers of initiation systems and the largest boosters and detonating cords producer within a highly regulated industry, Fabchem’s products are widely used in the mining, energy exploration, hydroelectric and infrastructure construction sectors. Our products include explosive devices (boosters), industrial fuse and initiating explosive devices (detonating cords and non-electric tubes), and industrial detonators (non-electric detonators and piston non-electric detonators).

Fabchem’s subsidiary, Shandong Yinguang Technology Co., Ltd, is the pioneer and market leader in the production of boosters in China. Our boosters are tested and certified by Universal Tech Corporation R&D Laboratory, an authorised inspection institute for initiating explosive devices based in United States of America.

Fabchem’s initiation system products of international-standard quality are sold to more than 150 customers in the mining, energy exploration, hydroelectric and infrastructure construction industries across more than 10 countries, including China, Australia, Indonesia, Mongolia, India, Kazakhstan and Kyrgyzstan. Fabchem’s products are sold under the brand name “Yinguang” in China, and also marketed internationally to other major resource-rich countries. As an established commercial explosives producer, the Group also undertakes original equipment manufacturing for renowned global commercial explosives companies.

KEY PRODUCTS



EXPLOSIVE DEVICES

Explosive devices, such as boosters. Boosters are used to enhance the power of the explosions in mining and oil and gas exploration activities.

INDUSTRIAL FUSE AND INITIATING EXPLOSIVE DEVICES

Industrial fuse and initiating explosive devices, such as detonating cords and non-electric tubes. These devices are used to initiate the detonation process.

INDUSTRIAL DETONATORS

Industrial detonators, such as non-electric detonators and piston non-electric detonators. These devices are mainly used to initiate explosions, either through boosters or applied directly on the explosives.

OUR GLOBAL REACH



LETTER TO SHAREHOLDERS

“

In response to the challenging business environment in recent years, we took swift, vigorous, realistic measures to stabilise the business, calibrate our product-mix portfolio, and strengthen our fundamentals, while focusing on the long term strategy of the Group to capture new and emerging growth opportunities.

”

Bao Hongwei

Managing Director



LETTER TO SHAREHOLDERS

Dear Shareholders,

Fabchem China Limited's ("Fabchem" or "the Group") macro business environment continues to be unsettled over the past 12 months, with subdued growth and additional regulatory measures that undermine our operating activities as well as those of our key customers in the mining industry.

In response to the challenging business environment in recent years, the management took swift, vigorous, realistic measures to stabilise the business, calibrate our product-mix portfolio, and strengthen our fundamentals, while focusing on the long-term strategy of the Group to capture new and emerging growth opportunities.

Given the external market conditions, the Group undertook an assessment of the production lines of our three core business segments for the full year ended 31 March 2019 ("FY2019"). After the review, an impairment allowance on property, plant and equipment of approximately RMB 119.0 million was made to ensure that the Group's balance sheet reflects the recoverable value of the assets.

As a result, the impairment allowance further impacted our financial performance in FY2019. More details of the Annual Report and Audited Financial Statements for FY2019 of Fabchem will be shared in the next few pages.

Nevertheless, essential to our niche and highly specialised operating activities, we continue to devote resources to enhance the safety DNA of our Group by investing in innovation and developing new manufacturing capabilities.

On this front, we have started the design and construction of our third automated boosters production line, however due to teething issues related to the fabrication process of the boosters machineries, the Group's third automated boosters production line will likely be delayed until 1 October 2019.

Separately, on a different note, we issued an announcement on 15 March 2019 relating to a mandatory conditional cash offer by Triple Vision Pte. Ltd. ("Triple Vision") for all the issued and paid-up ordinary shares (the "Shares") of Fabchem.

This is in accordance with Rule 14 of the Singapore Code on Take-overs and Mergers after Triple Vision acquired an aggregate of 13,993,200 shares from a substantial shareholder, DNX Australia Pty Limited ("DNX Australia"), at S\$0.158 per share.

Previously, the Group has been selling our explosive devices products to business entities related to DNX Australia and as a result of this divestment by DNX Australia, future transactions between the Group and business entities related to DNX Australia will cease to be Interested Person Transactions. Shareholders should be highlighted that business transactions between the Group and business entities related to DNX Australia will continue as normal and the divestment by DNX Australia will not have any impact on these business transactions.

REVIEW OF OUR FINANCIAL PERFORMANCE

In FY2019, the Group's revenue declined 19.3% to approximately RMB 154.4 million with lower sales registered across our three core product segments namely, (a) explosive devices such as boosters; (b) industrial fuse and initiating explosive devices such as detonating cords and non-electric tubes; and (c) industrial detonators such as non-electric detonators and piston non-electric detonators.

Contributing 45.8% of the Group's revenue, sales of the Group's explosive devices product segment dipped 10.4% to approximately RMB 70.8 million while the industrial detonators product segment decreased 8.8% to approximately RMB 53.7 million.

The Group had to temporarily cease production activities for about 10 days during June 2018 due to the Chinese authorities' issuance of a temporary cease production directive to commercial explosive manufacturers in the Shandong province in relation to The Shanghai Cooperation Organisation meeting in Qingdao that took place in June 2018.

LETTER TO SHAREHOLDERS



Separately, some of our customers' mining operations in the domestic market were affected by additional safety measures that restricted the use of detonating cords for mining activities since the second quarter of FY2018, hence sales of industrial fuse and initiating explosive devices product segment dropped 44.4% to approximately RMB 29.6 million in FY2019.

In our overseas markets, sales dipped marginally by 4.5% to approximately RMB 63.5 million in FY2019 as sales to Australia decreased 23.0% to approximately RMB 44.0 million due to lower number of scheduled shipments of boosters to customers in Australia.

As the Group's production activities were affected during FY2019 that resulted in lower production volume across all its product ranges, the Group's gross profit margin dipped marginally from 18.8% to 18.5% in FY2019.

The Group's distribution expenses decreased 2.4% to approximately RMB 20.8 million in FY2019. However, administrative expenses increased marginally by 4.7% to approximately RMB 32.2 million in FY2019 due to increased depreciation expenses and research and development expenses.

Factoring in the impairment allowance on property, plant and equipment of approximately RMB 119.0 million, the Group registered a loss after tax of approximately RMB 150.4 million in FY2019.

ANALYSIS OF OUR BALANCE SHEET

After the assessment of the production lines of our three core business segments, total assets stood at approximately RMB 333.0 million as at 31 March 2019. The Group's cash and cash equivalent position stood at approximately RMB 83.2 million with a gearing of 0.17x.

The Group's trade receivables, another major component of current assets, stood at approximately RMB 29.3 million as at the end of March 2019.

As at 31 March 2019, the Group had total liabilities of approximately RMB 140.8 million, of which the major components are trade and other payables of approximately RMB 56.5 million and other financial liabilities of RMB 58.0 million.

And as at 31 March 2019, shareholders' equity stood at approximately RMB 192.2 million and net asset value per share stood at RMB 4.11 per share.

LETTER TO SHAREHOLDERS

CASH FLOW HIGHLIGHTS

During FY2019, the Group continued with its capital management initiatives which generated net cash from operating activities of approximately RMB 12.1 million. However, the Group recorded net cash used in investing activities of approximately RMB 12.4 million and net cash used in financing activities of approximately RMB 5.45 million.

As a result, the Group generated an overall net cash outflow of approximately RMB 5.8 million in FY2019.

As part of our continual strategic focus, the Group will proactively evaluate new measures to utilise our working capital more efficiently and strengthen our financial foundation.

THE DEMISE OF OUR NON-EXECUTIVE CHAIRMAN AND NON-INDEPENDENT DIRECTOR, DR. LIM SECK YEOW (“DR. LIM”)

It is with sadness and regret that Dr. Lim passed away on 1 September 2018. Since the Group’s listing in 2006, Dr. Lim has had many outstanding contributions to the Board during his tenure, working tirelessly and providing valuable insights in the roles that he served within the Remuneration Committee, Nominating Committee and Audit Committee of the Group.

It has been a privilege to serve with him and on behalf of the Board and management, we would like to express our deepest appreciation and gratitude again for Dr. Lim’s dedicated service and commitment over the years in guiding the Company.

Pending the formal appointment of the Company’s Chairman, the Group’s Lead Independent Director, Mr Wee Phui Gam, was appointed the Company’s Acting Chairman in the interim.

Other than this change in the composition of our Board of Directors, Mr Sun Bowen was re-designated from the position of Executive Director and Senior Advisor of the Company to Non-Executive Non-Independent Director of the Company with effect from 1 December 2018.



THANKS & APPRECIATION

On behalf of the Board of Directors, I would like to express my sincere thanks to everyone who has contributed positively to our Group over the last 12 months. In particular, the efforts and commitment of our employees made the current challenging business journey much more bearable and meaningful.

I would also like to thank my fellow Directors for their commitment and contributions during the past eventful year. Last but not least, to our shareholders, thank you for your continuing confidence and support.

There is a lot more to do in developing new value propositions for the Group but we can undertake that work from a strengthening position.

Thank You!

致股东的信

“针对近年来业务环境挑战加剧的状况，我们已迅速、积极、切实地采取措施，稳定业务、调整产品组合、强化基础，同时专注于本集团的长远策略，捕捉新兴增长机遇。”

致敬爱的股东们：

在过去的十二个月，中国杰化有限公司（“中国杰化”或“本集团”）的宏观经营环境持续不稳定，再加上增长率低、新增监管措施，促使我们以及我们采矿行业的主要客户的营运活动面临了更多的挑战。

针对近年来业务环境挑战加剧的状况，管理层已迅速、积极、切实地采取措施，稳定业务、调整产品组合、强化基础，同时专注于本集团的长远策略，捕捉新兴增长机遇。

鉴于外围市场状况，本集团于截至2019年3月31日止财政年度（“2019财政年”）就我们三大核心业务的生产线进行了评估。经过检讨后，我们对厂房及机器设备计提约人民币1.19亿元的减值准备，以确保本集团的资产负债表反映了有关资产的可收回价值。

因此，减值准备对我们于2019财政年的财务表现造成了更大的影响。有关中国杰化于2019财政年的年度报告及经审核财务报表的更多资料将于接下数页载述。

尽管如此，因应我们的独特及高度专业化的营运活动所需，我们继续投入资源，通过对创新进行投资、开发新的制造技术，继续提升本集团对安全意识之本性。

在此方面，我们已开始设计和建造我们的第三条中继起爆具自动化生产线。然而，由于中继起爆具机械的生产过程尚有初期问题，本集团的第三条中继起爆具自动化生产线可能会延至2019年10月1日才能投入运作。

另一方面，本集团于2019年3月15日发布了一则有关Triple Vision Pte. Ltd.（“Triple Vision”）提出强制性有条件现金要约收购中国杰化之所有已发行及缴足普通股（“股份”）。

这是在Triple Vision从一名主要股东DNX Australia Pty Limited（“DNX Australia”）以每股0.158新元收购了13,993,200股的股份后，遵照新加坡收购及合并守则第14条作出了有关的举动。

先前，本集团一直与DNX Australia有关的业务实体销售我们的民爆产品，而因为DNX Australia出售它们的股份，未来本集团与DNX Australia有关的业务实体所进行的交易将不会再属于具有权益人士的关联方交易。股东敬请垂注，本集团与DNX Australia有关的业务实体的业务交易将如常进行，DNX Australia进行这项股份出售将不会对该等业务交易造成任何影响。

财务业绩回顾

于2019财政年，本集团的收入下跌19.3%至约人民币1.544亿万元，三大核心业务分部（(a)中继起爆具；(b)工业导爆索和导爆管；及(c)工业导爆管雷管）的营业额都下降了。

中继起爆具产品分部销售占本集团收益45.8%，下跌10.4%至约人民币7,080万元，而工业导爆管雷管产品分部则下跌8.8%至人民币5,370万元。

本集团于2018年6月须暂停生产活动约10日，以遵守中国当局针对于2018年6月在青岛举行的上海合作组织峰会，因此对民爆产品生产商发布的暂时停止生产指令。

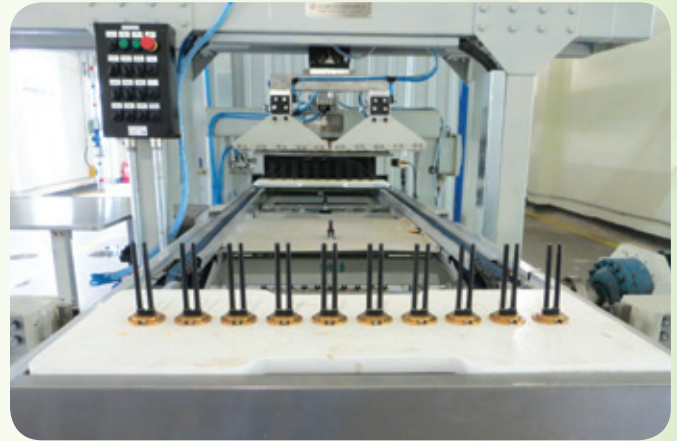
另外，我们一些在国内市场的客户的采矿业务自本集团2018财政年第二季起也受到限制采矿活动使用导爆索的额外安全措施。因此，本集团的工业导爆索和导爆管产品分部的销量于2019财政年下跌44.4%至约人民币2,960万元。

海外市场方面，2019财政年销售稍微下降4.5%至约人民币6,350万元，原因是澳洲客户的中继起爆具定期运输量减少，以至澳洲的销售量下跌了23.0%至约人民币4,400万元。

由于本集团的生产活动于2019财政年受到影响，导致所有产品系列的生产量减低，因此本集团于2019财政年的毛利率由18.8%稍微减少至18.5%。

本集团的销售费用于2019财政年下跌2.4%至约人民币2,080万元。然而，管理费用于2019财政年稍微上升4.7%至约人民币3,220万元，原因是折旧开支和研发费用的增加。

加上厂房及机器设备之减值准备约人民币1.19亿万元，本集团于2019财政年录得税后亏损约人民币1.504亿元。



资产负债表分析

经过本集团三大核心业务分部的生产线进行了评估后，于2019年3月31日，资产总值约达人民币3.33亿元。本集团的现金及现金等值物状况约达人民币8,320万元，资产负债比率为0.17倍。

作为流动资产的另一重要部分，本集团的应收账款于2019年3月底约达人民币2,930万元。

于2019年3月31日，本集团的负债总额约为人民币1.408亿万元，其中主要成分为应付及其他应付款约人民币5,650万元和其他金融负债约人民币5,800万元。

于2019年3月31日，股东权益约达人民币1.922亿元，而每股净资产约人民币4.11元。

现金流量摘要

于2019财政年，本集团维持营运资金管理措施，为本集团产生来自经营活动现金净额约人民币1,210万元。然而，本集团在投资活动所用现金净额约人民币1,240万元及融资活动所用现金净额约人民币545万元。

因此，本集团于2019财政年产生整体现金流出净额约人民币580万元。

秉持着本集团战略重点的一部分，我们将积极研究新措施，以更有效地运用我们的营运资金、增强我们的财务基础。

非执行主席兼非独立董事林植耀先生（“林先生”）辞世

林先生于2018年9月1日辞世，本集团对此表示深切哀悼。自本集团于2006年上市以来，林先生于任内对董事会作出了许多杰出贡献，于本集团的薪酬委员会、提名委员会及审核委员会担任职务时不遗余力、并提供了可贵意见。

能与林先生共事是我们的荣幸，我们代表董事会及管理层对林先生多年来致力领导本公司再次衷心表达感谢。

待正式委任本公司主席前，本公司的首席独立董事黄培岩先生已获委任为本公司的署理主席。

除此董事会成员变动外，孙伯文先生自2018年12月1日起已从本公司执行董事兼高级顾问一职重新委派为本公司非执行非独立董事。

鸣谢

我谨代表董事会衷心感谢过去12个月以来对本集团作出贡献的所有人士，尤其是员工孜孜不倦的努力，令我们能更轻松、更有意义地迈过当前充满挑战的前方。

我也在此由衷感谢向董事同仁在过去重大的一年的竭诚服务和贡献。最后，也向尊贵的股东对我们持续的信心和支持致上谢意。

在为本集团创造发展新价值定位的工作，我们仍需作出更大努力，不过在日益强稳的基础上，我们有信心能顺利开展本集团未来的蓝图。

谢谢！

FINANCIAL HIGHLIGHTS

FINANCIAL YEAR-END MARCH

REVENUE BY PRODUCT SEGMENTS	FY2016 RMB'000 (re-presented ^[1])	FY2017 RMB'000	FY2018 RMB'000	FY2019 RMB'000
Explosive Devices	89,004	33,434	78,971	70,755
Industrial Fuse and Initiating Explosive Devices	59,748	61,680	53,242	29,629
Industrial Detonators	49,375	52,755	58,917	53,737
Ammonium Nitrate (Discontinued operations)	1,858	121	-	-
Others	413	662	130	295

OPERATING RESULTS

Revenue	198,390	148,531	191,260	154,416
Gross Profit	51,061	22,246	35,942	28,611
Loss before tax from continuing operations	(21,724)	(33,855)	(19,990)	(147,240)
Loss from continuing operations, net of tax	(25,486)	(25,135)	(19,828)	(150,373)
(Loss)/Profit from discontinued operations, net of tax	(8,337)	26,157	-	-
(Loss)/Profit Attributable to Shareholders	(33,823)	1,022	(19,828)	(150,373)
EBITDA ^[2]	2,935	16,114	2,301	(3,557)

BALANCE SHEET

Non-Current Assets	319,794	300,833	326,626	179,677
Current Assets	244,816	200,103	185,082	153,317
Current Liabilities	194,191	129,688	141,862	119,075
Non-Current Liabilities	2,365	2,075	20,518	21,683
Shareholders' Equity	368,054	369,173	349,328	192,236

CASH FLOW

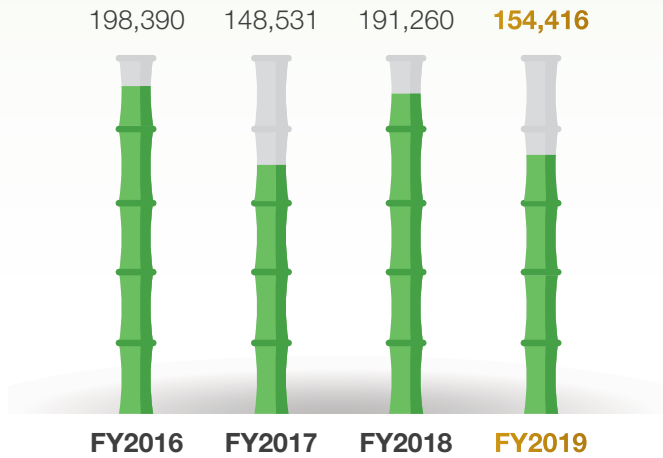
Net Cash From/(Used in) Operating Activities	25,367	(41,415)	27,722	12,088
Net Cash (Used in)/From Investing Activities	(12,727)	24,006	(18,599)	(12,449)
Net Cash (Used In)/From Financing Activities	(10,512)	9,623	(3,355)	(5,450)

^[1] Re-presented to show the discontinued operations separately from continuing operations

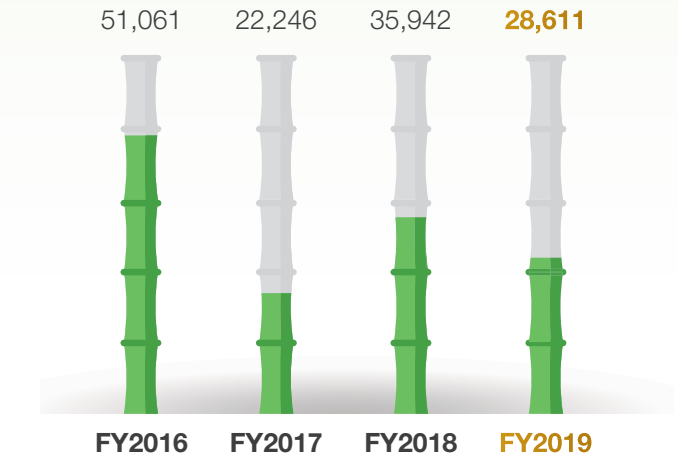
^[2] Earnings Before Interest, Tax, Depreciation, Amortisation and Impairment allowance on Property, Plant and Equipment

FINANCIAL HIGHLIGHTS

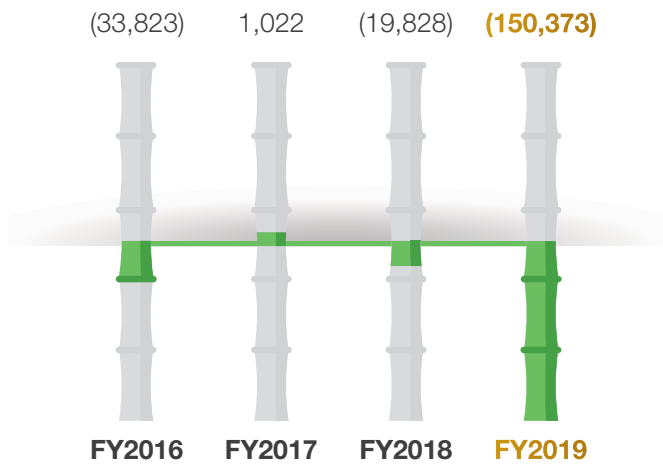
REVENUE (RMB'000)



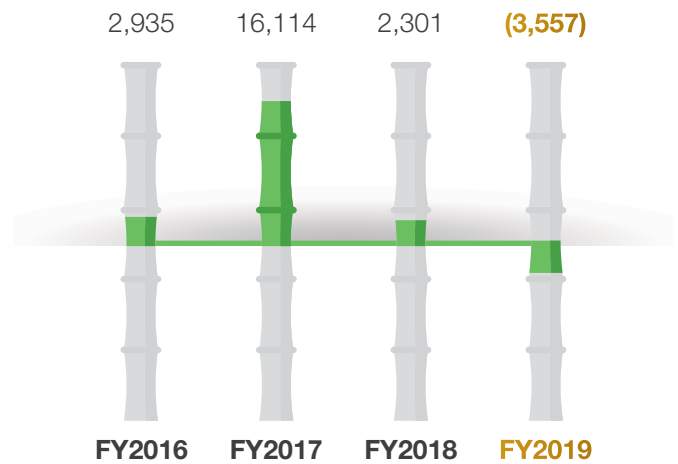
GROSS PROFIT (RMB'000)



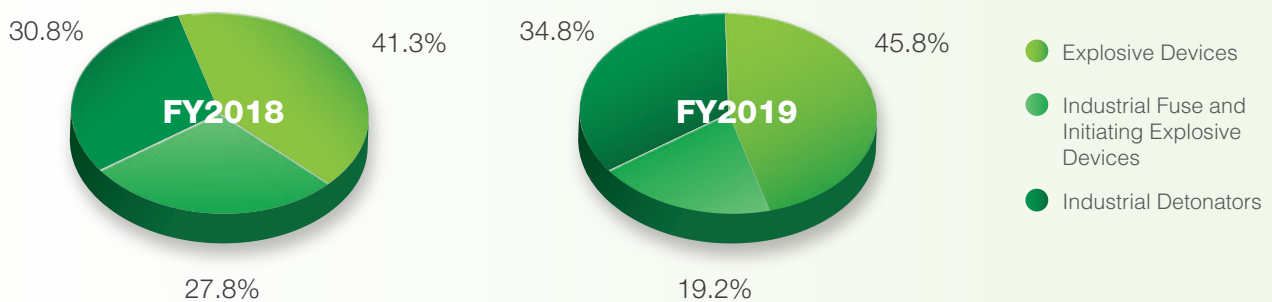
(LOSS)/PROFIT ATTRIBUTABLE TO SHAREHOLDERS (RMB'000)



EBITDA (RMB'000)



REVENUE BY PRODUCT SEGMENTS



BOARD OF DIRECTORS



BAO HONGWEI

Managing Director

Bao Hongwei is our Managing Director and was appointed on 1 January 2018. He was our Executive Director and General Manager since 16 June 2005. He is responsible for the overall and day-to-day management and operations of our Group. He joined Feixian Chemical Factory in 1989 as a section manager and was subsequently promoted to deputy factory manager in 1991. In 1997, he was a non-executive director of Yinguang Chemical Group and also a managing director and general manager of Feixian Yinguang Drawnwork Co., Ltd. He is currently a non-executive director of Yinguang Chemical Group and some of its subsidiaries as well as Yinguang Chemical. He obtained a certificate in economics management from the Jinan Workers University in 1994 and a Masters in Business Administration from the Tsinghua University in 2000. He also obtained a Bachelor Degree in Economics Management from the Provincial Party Committee School of Shandong in 2002 and a Master Degree in Administrative Management from Beijing Normal University in 2004.



WEE PHUI GAM

Acting Chairman and Lead Independent Director

Wee Phui Gam is our Independent Director and was appointed on 15 October 2009. Mr Wee is also appointed as our Acting Chairman on 2 September 2018. Mr Wee is a practising Chartered Accountant of Singapore. He has been the sole proprietor of P G Wee & Partners since 1984. P G Wee & Partners was converted to P G Wee Partnership LLP (“P G Wee”), an Accredited Training Organisation, in January 2013. He is also the managing partner of Y.C. Lee & Co (“Y.C. Lee”), a position he has held since 1990. P G Wee and Y.C. Lee are public accounting firms in Singapore. Mr Wee is also an independent director of Imperium Crown Limited, a company listed on the Catalist of The Singapore Exchange Securities Trading Limited. Mr Wee started his career in 1978 as an audit assistant with Foo, Kon & Tan, a public accounting firm in Singapore. Shortly after, he joined Peat Marwick Mitchell & Co, an international accounting firm as an audit assistant, becoming a Manager when he left some 6 years later, in 1984. Mr. Wee holds a Bachelor of Accountancy degree from the University of Singapore, a Fellow Member of the Institute of Chartered Accountants of Singapore and is an Accredited Tax Advisor (Income Tax & GST).



SUN BOWEN

Non-Executive and Non-Independent Director

Sun Bowen is our Non-Executive and Non-Independent Director and was appointed on 1 December 2018. He was our Executive Director and Senior Advisor since 1 January 2018. He was our Managing Director since 16 June 2005. He provides firm relationships with government authorities and other stakeholders, as well as assisting the Managing Director to evaluate and formulate business strategies for our Group. He has been with the Group since 1980 when Feixian Chemical Factory was first established in 1979. He was a factory manager in Feixian Chemical Factory and thereafter became a majority shareholder of Shandong Yinguang Chemical Group Co., Ltd (“Yinguang Chemical Group”). He was also the director and general manager of Yinguang Chemical Group from December 1997 to May 2004. Sun Bowen has more than 20 years of experience in the explosives industry. He started as a mechanic in 1966, and thereafter became a technician and factory manager in the period from 1976 to 1993. In March 1993, he became a director of Shandong Yinguang Chemical Industry Co., Ltd (“Yinguang Chemical”) till 2004. Mr Sun graduated from Qingdao University of Science and Technology with a degree in Chemical Engineering. He is currently a non-executive director of Yinguang Chemical Group and some of its subsidiaries as well as Yinguang Chemical and he is the managing director of our subsidiary, Shandong Yinguang Technology Co., Ltd. He is also an executive director of Imperium Crown Limited, a company listed on the Catalist of The Singapore Exchange Securities Trading Limited.



PROFESSOR JIANG RONGGUANG

Independent Director

Professor Jiang Rongguang is our Independent Director and was appointed on 11 October 2010. Professor Jiang is an industry veteran with over 30 years of experience in China’s commercial explosives industry. He is currently a Professor with Nanjing University of Science and Technology (南京理工大学) and also the chief technical specialist with National Quality Supervision and Inspection Center for Industrial Explosive Materials (国家民用爆破器材质量监督检验中心首席技术专家) (“NQSIC”), where he previously had served as permanent deputy chairman. Authorised by the Chinese government quality assurance and certification agencies, NQSIC provides independent assessments and certifications of commercial explosives products manufactured in China. Professor Jiang is also currently serving as a member in the Experts Committee of Commercial Explosives Industry of China (国家民爆器材行业专家委员会委员) and also as a member in the Safety Experts Committee of Ministry of Industry and Information Technology of the People’s Republic of China (中华人民共和国工业和信息化部民爆器材行业安全专家委员会委员) (“MIIT”). Among others, MIIT is tasked with the supervision and governing of commercial explosives’ production and manufacturing activities in China. Professor Jiang graduated from Nanjing University of Science and Technology (南京理工大学) in 1978, majoring in the design and development of explosive devices.

KEY MANAGEMENT

Sun Qiang

Sales And Marketing Manager

Sun Qiang is our Sales and Marketing Manager. He has been responsible for the sales and marketing of our Group since 2003. He is currently a non-executive director of Shandong Yinsheng Investments Co., Ltd (“Yinsheng Investments”). Prior to joining our Group, he was a civil servant in Economic and Trade Committee of Fei County from 1991 to 1993 and thereafter became a section manager and was later promoted to department head in the Ministry of Labour and Social Security of Fei County from 1993 to 2003. He was also a deputy general manager of Yinguang Chemical from 2003 to 2004. Sun Qiang holds a degree in Economics and Management from the Cadre Correspondence University of Shandong and a diploma in Business Management from the Jinan University of Shandong.

Kwek Wei Lee

Finance Manager (Group Accounts)

Kwek Wei Lee is our Finance Manager (Group Accounts). He is responsible for the financial, accounting, budgeting and taxation matters of our Group. Prior to joining our Group in April 2005, he was an Audit Senior with Ernst & Young, Singapore, an international audit firm, from January 2003 to March 2005, where he was involved in the audit of public listed companies and multinational companies. From December 2000 to December 2002, he was a Senior Audit Assistant with BDO LLP (formerly known as BDO International), Singapore, an international audit firm. Mr Kwek obtained a Diploma with Merit in Accountancy in June 1998. He is a Chartered Accountant of Singapore and fellow member of the Association of Chartered Certified Accountants in UK.

Chen Hongyu

Finance Manager (China Operations)

Chen Hongyu is our Finance Manager (China Operations). He is responsible for accounting and financial matters for our China operations. He has worked in our Group since 1994. From 1994 to 2004, he was the financial manager and deputy general manager of Yinguang Chemical. From 1989 to 1994, he was a section manager of the finance department in Shandong Feixian Art Co. He holds a degree in Economics and Management from the Provincial Party Committee School of Shandong.

Yang Xingdong

Administrative Manager

As Administrative Manager, Yang Xingdong is responsible for the administrative function of our Group. After graduating from the University of Shandong, he joined our Group as a deputy section manager in 1995, he then became a factory manager in 1998. He was promoted to become an assistant general manager and deputy general manager from 1999 to 2004. He is currently a nonexecutive director of Yinguang Chemical. He obtained a degree in chemical engineering from the University of Shandong in 1995. He was certified as an “Assistant Technical Engineer” in 1996 and “Technical Engineer” in 2001 by the Personnel Bureau of Fei County and Personnel Bureau of Linyi City respectively.

LETTER TO SHAREHOLDERS

Sustainability and Corporate Social Responsibility

We are pleased to present our sustainability report. At Fabchem, sustainability is highly regarded by the Board of Directors and top management. We stay committed to creating an organisational culture whereby sustainable business practices are valued and sustainable criteria are used when selecting our business partners. We believe that we can play our part in contributing to environmental preservation by minimising the impact of our operations on the environment. We endeavour to utilise our core competencies to contribute to the society and generate long term value for our stakeholders.

ABOUT THIS REPORT

Fabchem China Limited (hereafter referred to as “Fabchem” or the “Group”) presents the Group’s Sustainability Report (the “Report”) which covers our Group’s performance from 1 April 2018 to 31 March 2019 (the “reporting period”).

The Report summarises Fabchem’s key sustainability issues, our management approach as well as our related performance across the Group’s operations. The Group has chosen the Global Reporting Initiative (“GRI”) Standards as it is the most established international sustainability reporting standard. This Report is prepared in accordance with the GRI standards “Core” option. The Report incorporates the primary components of report content set out by the SGX’s “Comply or Explain” requirements on sustainability reporting under Listing Rule 711B.

Fabchem’s material topics are identified based on their impacts on our internal and external stakeholders, as outlined in the Stakeholders Engagement section. Detailed section reference with GRI Standards is found on the GRI Index Page. The Sustainability Team has assessed that external assurance is not required as the Group wishes to focus on strengthening the sustainability reporting framework for this year.

SUSTAINABILITY REPORT

FABCHEM SUSTAINABILITY STORY

Sustainability Targets

Fabchem has set targets to improve the sustainability of our business operations in the future. We endeavour to demonstrate continuous improvement on our environmental management and protection efforts to reduce our environmental impact, as well as to benefit the community and our employees.

Below is a summary table of the Group's sustainability targets and performance during the reporting period.

Environmental Performance in FY2018	
FY2018 Target	Performance Update
Maintain and uphold energy saving initiatives	- Reduced energy consumption by 14%
Environmental Performance in FY2019	
FY2019 Target	Action Plan
Reduce energy consumption and GHG emissions	
Zero incident of environmental non-compliance	
Social Performance in FY2018	
FY2018 Target	Performance Update
Safe working environment for employees	- Achieved zero occupational health and safety incident
Social Performance in FY2019	
FY2019 Target	Action Plan
Zero occupational health and safety incident	
Zero product health and safety incident	
Training and development of staff	

NOTEWORTHY AWARDS

In recognition of our sustainability efforts, Fabchem received the following awards in FY2019:

- Province-wide advanced enterprise with safe productions
- Contract-honouring and trustworthy enterprise
- Second Prize in Shandong Science and Technology Innovation Competition

FABCHEM'S COMMITMENT TO SUSTAINABILITY Governance and Statement of the Board

At Fabchem, sustainability is highly valued by the Board of Directors and top management. We established a Sustainability Team which comprises heads of departments from Operation, Human Resource, Health and Safety, Finance and Corporate.

The Board incorporates sustainability issues into the strategic formulation of the Group. The Board with the assistance of the STF determines the material environmental, social and economic factors, and ensures that the factors identified are well-managed and monitored.

KEY STAKEHOLDERS ENGAGEMENT

We engage all of our stakeholders through a variety of channels to update them about Fabchem's developments and gather their feedback. We identify stakeholders as groups that have an impact, or have the potential to be impacted by our business, as well as external organisations that have expertise in topics that we consider material. The feedback we receive from our stakeholders helps us to determine our material topics and identify our focus areas as the following:

Stakeholders	Issues of Concern	Means of Engagement	Section Reference
Employees	Remuneration and benefits Training and development Ethics and conduct Diversity	Performance appraisal Ongoing communication Training needs identification Sustainability reporting	Ethics and Integrity Our People
Customers	Corporate social responsibility Environmental compliance Social compliance	Annual reports Sustainability reporting	Our People Environmental Topics Supplier Management
Suppliers	Environmental compliance Anti-corruption Economic performance	Annual reports Sustainability reporting	Supplier Management Ethics and Integrity
Communities	Usage of packaging materials and recycling efforts	Sustainability reporting	Environmental Topics
Government and regulatory bodies	Environmental compliance Environmental matters Regulatory and industrial requirements	SGX announcements Annual reports Sustainability reporting Ongoing dialogues	Our People Environmental Topics Supplier Management
Shareholders and investors	Economic performance Anti-corruption	Annual reports Investor relations management Sustainability reporting	Ethics and Integrity

SUSTAINABILITY REPORT

MATERIAL TOPICS AND BOUNDARIES

The Group has applied the GRI Principles for Defining Report Content to identify material topics that are relevant to the business and to its stakeholders.

We have conducted a materiality assessment session based on the guidelines of GRI Standards. The following table summarises topics which were determined to be the most significant to the Group:

Material Topics	Boundaries (where the impacts occur)
ECONOMIC	
GRI 205: Anti-corruption	The Group
ENVIRONMENTAL	
GRI 301: Materials	The Group
GRI 302: Energy	
GRI 303: Water	
GRI 305: Emissions	
GRI 306: Effluents and Waste	
GRI 307: Environmental Compliance	
GRI 308: Supplier Environmental Assessment	
SOCIAL	
GRI 401: Employment	The Group
GRI 403: Occupational Health and Safety	
GRI 404: Training and Education	
GRI 405: Diversity and Equal Opportunity	
GRI 413: Local Communities	
GRI 416: Customer Health and Safety	
GRI 417: Marketing and Labelling	

ETHICS AND INTEGRITY

GRI 205-1, 205-2, 205-3

The Group is strongly committed to a high legal and moral standard in all of our business activities. We have adopted a Code of Conduct as a testimony to our commitment to adhere to the highest standards of professionalism, integrity and ethics. All employees are required to read, understand and agree to comply with the purposes and provisions of the Code of Conduct. Employees are held liable for their failure to comply which may result in disciplinary actions. The severity of these disciplinary actions depends on circumstances and the gravity of the misconduct.

The Group takes a strong stance against corruption and malpractice and does not tolerate any impropriety, statutory non-compliance or wrongdoing by employees in the course of their work. The Code of Conduct strictly prohibits any acts by employees to use their position to obtain advantages for themselves. To achieve the high standard of personal integrity and accountability, the Group developed a Whistle Blower Policy and Reporting Procedure to provide a framework to promote responsible and confidential whistleblowing without fear of adverse consequences.

The Board oversees the processes for evaluating the adequacy of internal controls and risk management including the review and approval of interested party and interested person transactions in accordance with SGX Listing Manual. The Group has set out procedures governing all interested person transactions to ensure that they are carried out on an arm's length basis, on normal commercial terms and will not be prejudicial to the interests of the Group and its shareholders.

There was no incident of corruption and no public legal cases brought against the Group or our employees. We will continue to be vigilant in ensuring our employees conduct themselves with the highest level of integrity.

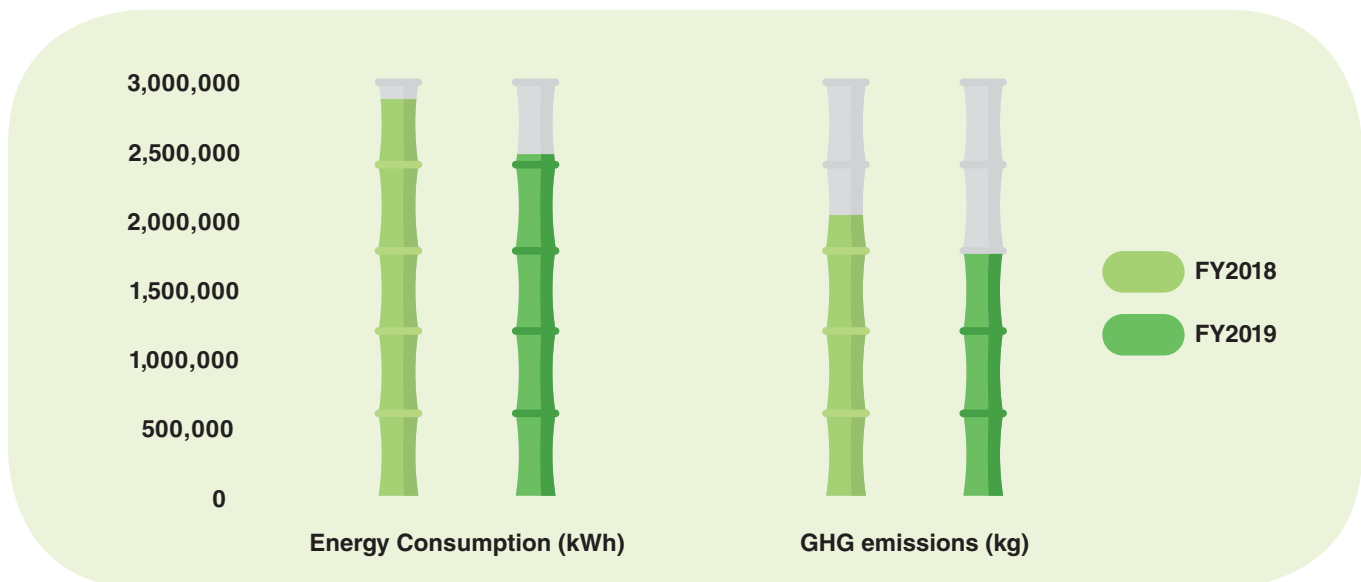
ENVIRONMENT

Energy Consumption and Greenhouse Gas Emissions

GRI 302-1, 302-3, 302-4, 305-2, 305-4, 305-5

The Group uses substantial energy in production plants to support our business activities. The energy is derived from electricity purchased for consumption. The Group endeavours to efficiently manage energy consumption and greenhouse gas emissions to reduce our carbon footprint.

ENERGY CONSUMPTION AND GHG EMISSIONS



The Group has adopted many energy conservation and low-carbon measures, such as adjusting the operating time of its street lights in accordance to the sunrise and sunset time of each season, changing part of its infrared monitoring systems to infrared systems, sending residual heat from the air compressor room to the operation room for auxiliary heating, changing bathroom's hot water supply from boiler-generated to solar heating, and reforming the heat pipeline to shorten the distance of the main heating pipeline.

As for the newly renovated plant, the Group has changed all of the original metal halide lamps to LED lights, thus lowering the usage from 70W per lamp to 50W per lamp. Without decreasing the number of installations, an estimated 30% of electricity can be saved. The Group also replaced the original 10-tonne coal-fired burner with a 6-tonne gas boiler, thereby greatly reducing pollutant emissions.

The Group also fully utilises the off-peak electricity pricing policy, as well as the water storage capacity of the newly built high pool, thus saving an estimated 100,000 yuan on electrical bills every year.

SUSTAINABILITY REPORT

As a result of our energy conservation initiatives, we reduced energy consumption by 13.9% and our energy intensity reduced from 147.6 to 127.1. Fabchem will continue to improve its energy-saving measures and practices to further reduce our energy consumption and GHG emissions in FY2020.

Material and Packaging

GRI 301-2, 301-3

To minimise its impact on the environment, the Group has adopted practices to recycle its scraps and packing materials and reusing them as far as possible. The discarded explosive devices, detonators and chemical-containing solids are reused in the manufacturing processes. Plastic strips produced as by-products of the manufacturing detonating cords are collected and sold. The packaging materials are also reused in the factory as many times as possible before being disposed.

Water Usage, Recycle and Effluents Management

GRI 303-1, 303-2, 303-3, 306-1

Underground water is drawn and used for operations. License from the local government had been obtained for withdrawing water directly from wells. The amount of water withdrawn is calculated by the metre and is charged accordingly. The total amount of water withdrawn by the Group is limited to 150,000 cubic metres annually. The Group has constructed two wells, with one being used for daily operations and the other one for backup. Both wells are equipped with deep water pumps. The main well operates continuously to supply water for production processes whereas the backup well supplies water to be stored in water tanks. The wells are not constructed adjacent to or within preserved areas.

Separate Rainwater and Effluents

- An integrated system is used to collect, separate, treat and recycle rainwater and wastewater from production activities.
- Rainwater is collected from the factory's rain pipe network and is directly stored in the rainwater system.
- Softened wastewater and treated drainage water from the boiler are also directed back to the rainwater system.

Reuse Treated Effluents

- Effluents from circulating cooling systems, workshop floor cleaning, water-bath dedusting system and equipment cleaning are collected and treated through precipitation and active carbon absorption.
- The treated water is used for green belt sprinkling in the factory premise during irrigation periods or is stored in the factory's pond.
- The Group saves an estimated 486 cubic metres and 1,000 cubic metres of water every year from the detonation cord and booster factories respectively

Recycle Cooling Water

- Cooling water is reused after being stored in the pond and pumped back, effectively saving water resources.
- Through this practice, an estimated 17,500 cubic metres and 15,000 cubic metres of water is saved from the laminating workshop and detonator workshop respectively.

Hot Water for Heating

- Hot water is also used in the heating system during winters.

With effective water management practices, Fabchem's water consumption reduced from 261,579 m³ in FY2018 to 51,746 m³ in FY2019, reducing water consumption by 8%. A multi-pronged approach has been adopted to reuse and recycle different types of water in the production cycles and other operations within the factory premises.

Waste Management

GRI 306-2, 306-3

The Group recognises that the way we generate, treat and dispose of waste has a significant impact on the environment and community-at-large. Although industrial waste is inevitably generated as part of the manufacturing process, impacts can be ameliorated through responsible treatment and disposal methods in accordance with industry standards. Disposed packaging materials and PETN are sent to destruction sites for incineration.

Used activated carbon, sedimentation tank sludge and waste ion exchange resin are collected and sent for incineration. Domestic waste is treated by the local environmental sanitation agency.

City and county environmental protection agencies have carried out regular inspections. Certificate of confirmation on pollutant amount was issued to Fabchem by the local environmental authority. The Group also passed the annual GB/T24001-2016/ISO14001:2015 standard audit. There was no incident of spills by the Group during FY2019.

Environmental Compliance

GRI 307-1

Due to the nature of our operations and products, the Group is acutely aware of the importance of environmental protection to mitigate any environmental risks that may arise from the use of our products. We strictly implement the environmental supervision system of “Three Simultaneities” during construction period and regularly monitor environmental performance to ensure environmental performance.

We also strictly comply with all relevant environmental laws and regulations to ensure environmental compliance. We engage survey agencies to conduct environmental assessment before projects start. Regular monitoring of environment management system and audit is carried out to ensure compliance with regulations at national, provincial, municipal levels. Production suspension is strictly implemented during severely polluted weather following local authority's instructions.

We strictly adhere to safety management regulations for the production and sale of civil explosives to minimise risk of negative environmental impacts that can arise from our products. There was no incident of environmental non-compliance in FY2019.

Supplier Management

GRI 308-1, 308-2t

Fabchem has an internal screening process where all key suppliers are screened for negative environmental impacts resulting from their business operations. 100% of Fabchem's explosives suppliers must possess state-issued business license and production.

HEALTH AND SAFETY

Workplace Health and Safety

GRI 403-1, 403-2, 403-3, 403-4

Fabchem has a dedicated workplace health and safety committee headed by the Executive Director and consists of professional engineers, safety experts and department heads. All incidents of injuries are taken seriously by the committee and their relevant departments. Follow-up actions are taken to prevent recurrence, safety hazards are immediately removed and all employees were educated on precautionary measures.

Due to the nature of the business, workers may be exposed to dust, noise or hazardous chemicals in the various production lines. To achieve project success while ensuring employees' health and safety, a series of preventive measures are put in place to minimise the negative impact on employees.

SUSTAINABILITY REPORT

DUST

- Ventilation system installed in workshops
- Personal protective equipment (PPE) (eg. masks) for operators

NOISE

- Sound walls and curtains in workshops
- Personal protective equipment (PPE) (eg. earplugs and earmuffs) for operators
- Remote control and monitoring of machines

HAZARDOUS CHEMICALS

- Ventilation system and water-bath dedusters installed in workshops
- Personal protective equipment (PPE) (eg. special masks) for operators

Other than the preventive measures taken, detective measures are also deployed to regularly assess and monitor the effectiveness of current practices. Professional agencies are employed to carry out testing on hazardous elements in workshops. Employees who are exposed to higher risk of occupational hazard are arranged for regular health check-ups and each of them has an occupational health profile.

The Group has formalised the workplace health and safety practices into the Employee Rights Protection Policy as a guide for Human Resource, Safety and Environment departments and Trade Union Committee.

Customer Health and Safety

GRI 416-1, 416-2

We strictly adhere to safety management regulations for the production and sale of civil explosives to minimise risk of product health and safety. 100% of Fabchem's products have undergone health and safety assessment before delivery. There was no incident of non-compliance concerning the health and safety impacts of our products and services in FY2019.

Product Marketing and Labelling

GRI 417-2

The Group strictly complies with relevant marketing and labelling regulations. All product packaging of the Group

have product manuals, and 100% of the products are marked with detailed instructions and performance specifications. There was no incident of non-compliance concerning product information and labelling in FY2019.

OUR PEOPLE

The Group recognises that our people are the greatest assets which are key to the long-term viability of our business. We embrace gender diversity and our workforce comprises of employees from both genders and different age groups.

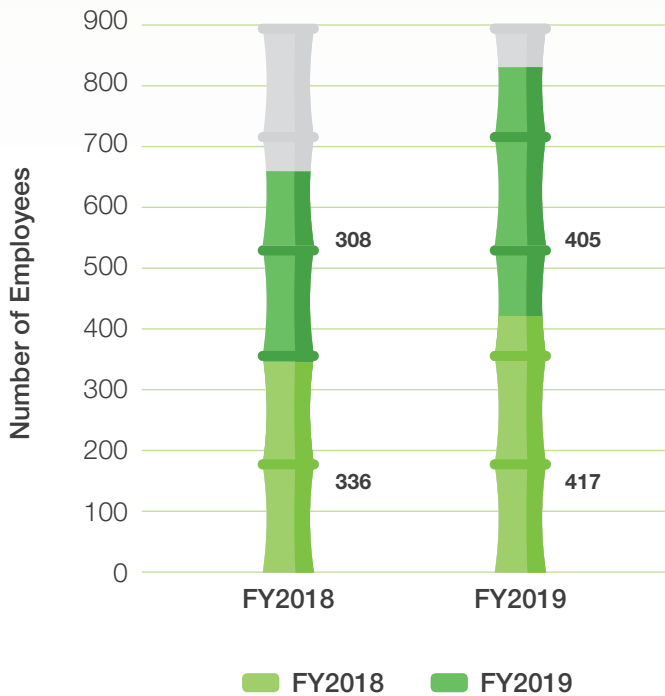
Diversity in Our Workforce

GRI 405-1, 405-2, 406-1

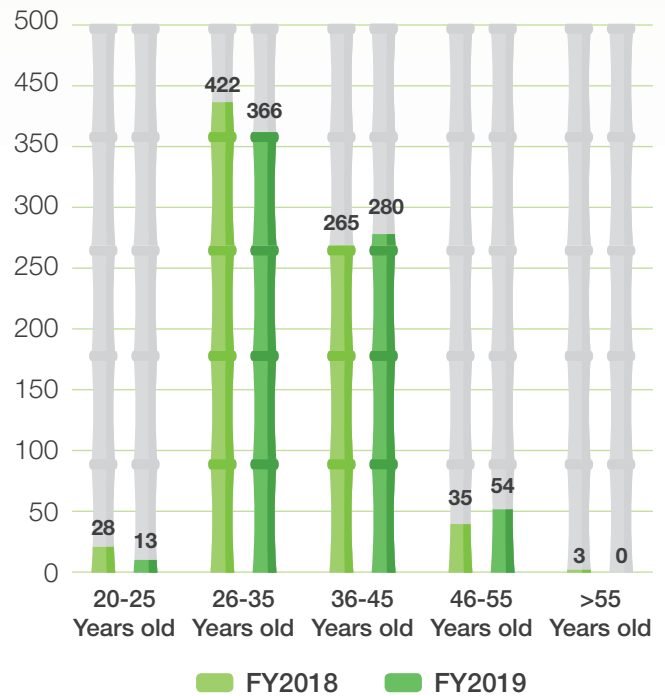
As at 31 March 2019, the Group has a total 713 employees, and the gender ratio is 43:57. The Group has a workforce of diverse cultural backgrounds, contributing to a dynamic and inclusive working environment.

The Group offers employees an environment of equity and inclusiveness. We do not discriminate our employees based on any aspects, including gender, age, ethics or origin. Female employees consistently constitute more than 50% of the entire workforce. The group has fair and competitive remuneration policy that determines remuneration based on position, experience and qualification regardless of gender.

Workforce by Gender



Workforce by Age



Benefits and Employee Retention

GRI 401-1, 401-2

We recognise the contribution by our employees and believe that employees' welfare has a direct impact on our business and is of utmost importance to us. On top of competitive salary and performance-based bonus, we also provide various types of allowances and benefits that cater to the needs of our employees. We fully comply with China's labour laws and regulations and provide all the required insurance and leaves.

Employee new hire rate was 0.07%, while turnover rate was 6.3% in FY2019. Fabchem aims to lower the turnover rate with continued employee retention efforts.

SUSTAINABILITY REPORT



Employee Development

GRI 404-1, 404-2, 404-3

As the Group is dedicated to helping its employees grow in the long term, employees from all departments were given the specialised training opportunities that cater to their career paths. When employees return to work from long-term leaves or transfer department, appropriate trainings are also provided to ensure that they are equipped with relevant skills and knowledge for their respective job scopes. To encourage effective learning, all employees are assessed after undergoing training. In December every year, all employees are invited to submit their training requirements which are evaluated and consolidated in an annual training schedule. The training plan is also aligned with department goals and shaped by the Group's strategic direction. 100% of employees from production, safety management, and special operation have undergone appropriate trainings in FY2018 and FY2019.

Employee's performance appraisal is conducted at year end and is used as basis for selection of outstanding employees, role models. Both individual's performance and department's performance are taken into consideration for employee's career progression.

COMMUNITY ENGAGEMENT

GRI 413-1

The Group emphasises on responsible business conduct and demonstrates this by making positive contributions to our community. In FY2019, Fabchem donated 200 school bags to the local province's charity organisation for local students to use.

SGX Five Primary Components Index

S/N	Primary Component	Section Reference
1	Material Topics	<ul style="list-style-type: none"> About this Report Key Stakeholders Engagement
2	Policies, Practices and Performance	<ul style="list-style-type: none"> Ethics and Integrity Environment Health and Safety Our People
3	Board Statement	Governance and Statement of the Board
4	Targets	Sustainability Targets
5	Framework	About this Report

GRI STANDARDS CONTENT INDEX AND GRI INDICATORS

GRI Standards	Disclosure Content	Annual/Sustainability Report Section Reference
102-1	Name of the organisation	About Us
102-2	Activities, brands, products, and services	About Us
102-3	Location of headquarters	About Us
102-4	Location of operations	About Us
102-5	Ownership and legal form	About Us
102-6	Markets served	Our Global Reach
102-7	Scale of the organisation	Letter to Shareholders
102-8	Information on employees and other workers	Our People
102-9	Supply chain	Supplier Management
102-10	Significant changes to the organisation and its supply chain	Letter to Shareholders
102-11	Precautionary principle or approach	Business and Financial Review
102-12	External initiatives	Business and Financial Review
102-13	Membership of associations	Board of Directors, Key Management
102-14	Statement from senior decision-maker	Letter to Shareholders
102-15	Key impacts, risks, and opportunities	Letter to Shareholders, Community Engagement
102-16	Values, principles, standards, and norms of behaviour	Ethics and Integrity
102-17	Mechanisms for advice and concerns about ethics	Ethics and Integrity
102-18	Governance structure	Corporate Governance Report
102-40	List of stakeholder groups	Stakeholder Engagement
102-42	Identifying and selecting stakeholders	Stakeholder Engagement

SUSTAINABILITY REPORT

GRI Standards	Disclosure Content	Annual/Sustainability Report Section Reference
102-43	Approach to stakeholder engagement	Stakeholder Engagement
102-44	Key topics and concerns raised	Stakeholder Engagement
102-45	Entities included in the consolidated financial statements	Notes to the Financial Statements
102-46	Defining report content and topic boundaries	About This Report
102-47	List of material topics	About This Report
102-48	Restatements of information	Not Applicable
102-49	Changes in reporting	Not Applicable
102-50	Reporting period	About This Report
102-51	Date of most recent report	16 July 2018
102-52	Reporting cycle	About This Report
102-53	Contact point for questions regarding the report	Finance Manager
102-54	Claims of reporting in accordance with the GRI Standards	About This Report
102-55	GRI content index	GRI Standards Content Index
102-56	External assurance	About This Report
201-1	Direct economic value generated and distributed	Financial Statements
205-1	Operations assessed for risks related to corruption	Ethics and Integrity
205-2	Communication and training about anti-corruption policies and procedures	Ethics and Integrity
205-3	Confirmed incidents of corruption and actions taken	Ethics and Integrity
301-2	Percentage of materials used that recycled input materials	Materials and Packaging
301-3	Reclaimed products and their packaging materials	Materials and Packaging
302-1	Energy consumption within the organisation	Energy Consumption and Greenhouse Gas Emissions
302-3	Energy intensity	Energy Consumption and Greenhouse Gas Emissions
302-4	Reduction of energy consumption	Energy Consumption and Greenhouse Gas Emissions
303-1	Water withdrawal by source	Water Usage, Recycle and Effluents Management
303-2	Water sources significantly affected by withdrawal of water	Water Usage, Recycle and Effluents Management
303-3	Percentage & total volume of water recycled and reused	Water Usage, Recycle and Effluents Management
305-2	Energy indirect (Scope 2) GHG emissions	Energy Consumption and Greenhouse Gas Emissions
305-4	GHG Emissions Intensity	Energy Consumption and Greenhouse Gas Emissions

GRI Standards	Disclosure Content	Annual/Sustainability Report Section Reference
305-5	Reduction of GHG emissions	Energy Consumption and Greenhouse Gas Emissions
306-1	Water discharged by quality and destination	Water Usage, Recycle and Effluents Management
306-2	Waste by type and disposal method	Waste Management
306-3	Significant spills	Waste Management
307-1	Non-compliance with environmental laws and regulations	Environmental Compliance
308-1	Percentage of new suppliers that were screened using environmental criteria	Supplier Management
308-2	Negative environmental impacts in the supply chain & actions taken	Supplier Management
401-1	New employee hires and employee turnover	Benefits and Employee Retention
401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	Benefits and Employee Retention
403-1	Workers representation in formal joint management-worker health & safety committee	Workplace Health and Safety
403-2	Injury & incidents	Workplace Health and Safety
403-3	Workers with high incidence or high risk of diseases related to their occupation	Workplace Health and Safety
403-4	Health & safety topics covered in formal agreements with trade union	Workplace Health and Safety
404-1	Average hours of training per employee	Employee Development
404-2	Programs for upgrading skills & transition assistance	Employee Development
404-3	Regular performance and career development review	Employee Development
405-1	Diversity of governance bodies and employees	Diversity in Our Workforce
405-2	Ratio of basic remuneration of women to men	Diversity in Our Workforce
406-1	Incidents of discrimination and corrective actions taken	Diversity in Our Workforce
413-1	Operations with local community engagement, impact assessments & development programs	Community Engagement
416-1	Assessment of the health & safety impacts of product & service categories	Customer Health and Safety
416-2	Incidents of non-compliance concerning the health & safety impacts of products & services	Customer Health and Safety
417-2	Incidents of non-compliance concerning product and service information and labelling	Product Marketing and Labelling

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	Proxy Form

SAFETY AND SECURITY COMPLIANCE

SAFETY MEASURES

The safety of our operations is of paramount importance to us. We have manuals to guide our staff on the important safety procedures which should be adhered to in the production process. We have also established a safety department comprising twelve staff who are tasked mainly with ensuring compliance at each level of operation with our internal safety measures. The department conducts routine monthly checks on the safety of our production procedures and constantly reviews our safety measures to ensure that they are adequate for our purposes. In addition, we have implemented international best practice systems to encourage employees' participation in identifying risk hazards and increasing the level of awareness of those risk hazards. Our internal auditors will also conduct checks on whether all of the Group's safety measures and procedures are complied with, and such checks will be reported to the Audit Committee and disclosed in our Company's annual report every year.

The safety aspects of our operations and products are vital to our business. The nature of the explosives industry is such that the raw materials and products are easily subject to explosions during the production process, transportation and storage. Production could be suspended for investigation by the relevant authorities in the event of any accidental explosions at our production or storage facilities, during the transportation of raw materials or during the usage of our products by the end-users. If investigation showed that the accident is due to a failure to comply with proper safety measures and procedures, corrective actions must be taken. The authorities can revoke our licenses to manufacture explosive products if no improvement is made subsequent to the suspension period. In view of the above reasons and in order to provide the safest possible environment for our staff, we adopt stringent safety measures at our production facilities as well as during the transportation and storage of our products and raw materials to keep the risks of explosion to a minimum, such as, inter alia, the following measures:-

- a) We implement safety measures at our production facilities. The importance of adhering strictly to the safety measures is stressed upon all our staff on a regular basis and extensive training sessions are organized regularly to educate and train our staff in our safety measures. All our new staff are rigorously trained and briefed on our safety measures before they commence work at our production facilities. Posters on our safety measures are put up throughout our production facilities as reminders to our staff on the importance of safety during their course of work.

In addition, we also have safety compliance officers whose main responsibilities are to formulate safety measures for our operations and to ensure that these measures are strictly adhered to by our staff. All our production processes are strictly monitored by our safety compliance officers who conduct random checks at different stages of our production process to ensure that the safety measures have been complied with. Any staff who is found to have breached any of the safety procedures will be disciplined in order to deter other staff from breaching the safety procedures.

For safety reasons, machines such as close circuit TVs are used to monitor the production processes of explosives which are more prone to explosions such as detonating cords. The control rooms that monitor these production processes are housed in buildings that are built to withstand explosions. Where possible, the fixtures at locations close to our production activities are made of non-metallic materials to reduce the chances of sparks caused by static charges. We have also installed numerous lightning rods throughout the compound of our production facilities to prevent explosions caused by lightning. In addition, we have dedicated fire brigade teams made up of the company's employees at our production facilities ready to put out any fire caused by explosions.

SAFETY AND SECURITY COMPLIANCE

- b) In addition, to the above safety measures, we also comply with the safety regulations promulgated by the Ministry of Industry and Information Technology, Department of Work Safety (“MIIT”), such as the Safety Norms for Designing Civil Explosives Factories and the Regulations on the Administration of Security Technology for Civil Explosives Factories. Safety regulations such as the maximum amount of explosives and number of staff permitted in a factory producing explosives are strictly adhered to in our production facilities and notices containing such information are put up at the entrance of every factory.

In addition, to prevent “chain explosions”, the distance between our factories in our production facilities are in accordance with the guidelines recommended by the MIIT. Our factories are also built in such a way that in the event of any explosion, the impact of the explosion will be directed at a fortified safety wall, which will minimize the impact of the explosion on the surrounding areas. The premises of our production facilities also have safety bunkers for our staff to take shelter during potential explosions.

- c) The production supervisor at each stage of our production process is responsible for the strict compliance with the relevant safety measures. Our transport manager is responsible for the strict compliance of safety measures during the transportation of raw materials and our products to and from our production facilities. They are our first-line of safety compliance officers. In respect of the transportation of raw materials and our products to and from our production facilities, we employ special container trucks that have been issued permits by the relevant authorities to transport explosives or materials that are explosive in nature. These container trucks are distinguished from normal trucks by their yellowish orange colour and their prominent “Explosive” labels to alert members of the public to the potentially dangerous contents of the trucks. As an added safety measure, the trucks are also fitted with a fire prevention cap over their exhaust pipes and lined with wooden planks on the inside.

We have not experienced any explosion of any magnitude at our production facilities or during the transportation of the raw materials or our products since we commenced our operations. Our Directors believe that based on the safety measures currently undertaken by our Group, the possibility of any explosions occurring at our production facilities or during the transportation of raw materials or our products have been kept to the minimum.

In addition to our internal checks, the relevant authorities also conduct safety checks on our operations and provide their opinions and recommendations. After the checks, any issues were promptly rectified. Following the explosive accident that occurred at an unrelated commercial explosives manufacturing plant in Shandong, the authorities heightened safety checks. Safety checks by the authorities for the financial year are described below:-

- a) The Fei County Industry & Information Technology Bureau conducted a total of fifteen inspections on our factory and warehouse safety procedures.
- b) The Linyi Industry & Information Technology Bureau conducted a total of ten inspections on our factory and warehouse safety procedures.
- c) The Department of Industry and Information Technology of Shandong Province conducted a total of three inspections on our factory and warehouse safety procedures.
- d) The Linyi Safety Supervising Bureau conducted a total of three inspections on our factory and warehouse safety procedures.
- e) The Fei County Safety Supervising Bureau conducted a total of three inspections on our factory and warehouse safety procedures.

SAFETY AND SECURITY COMPLIANCE

SECURITY MEASURES

The Group has strict security measures in place to prevent loss or theft of explosives products, some of which are briefly described below:-

- a) A team of trained security guards who are each certified and/or licensed by the local Public Security Bureau guards all of our production facilities and warehouses, oversee the transportation of goods and safeguard our raw materials and finished goods. As at the financial year ended 31 March 2019, we had a security team comprising 130 guards.
- b) Entry into our production facilities and warehouses is restricted strictly to staff and authorized personnel only.
- c) Stringent approval procedures, documentation and checks with respect to the flow of raw materials and finished products are also implemented. As testament to the effective implementation of our stringent security measures, there has not been any loss or theft of explosive raw materials or products from our facilities since we commenced our operations.

Our security procedures are inspected by external parties as described below:-

- a) The local Public Security Bureau regularly inspects our factory and warehouse security procedures. The local Public Security Bureau does not issue an inspection report to our Group, and Yinguang Technology did not receive any negative feedback from the local Public Security Bureau.

A total of eight inspections were made for the financial year ended 31 March 2019.

- b) The Shandong Department of Industry and Information Technology carries out an inspection on our factory and warehouse security at least twice every year. The Shandong Department of Industry and Information Technology does not issue an inspection report to our Group, and Yinguang Technology did not receive any negative feedback from the Shandong Department of Industry and Information Technology.

Our internal auditors will also conduct checks on whether all of the Group's security measures and procedures are complied with, and such checks will be reported to the Audit Committee and disclosed in our Company's annual report every year.

CORPORATE GOVERNANCE REPORT

Fabchem China Limited (the “Company”) is strongly committed to maintaining a high standard of corporate governance within the Company and its subsidiaries, Shandong Yinguang Technology Co., Ltd and Shandong Jiehua Wenlv Zhiye Co., Ltd (“Subsidiaries”) (collectively the “Group”). The board of directors of the Company (the “Board” or the “Directors”) recognises the importance of good corporate governance and the offering of high standards of accountability to the shareholders.

This report describes the Company’s corporate governance processes and structures that were in place throughout the financial year, with specific reference made to the principles and guidelines of the Code of Corporate Governance 2012 (the “Code”) which forms part of the continuing obligations of the Listing Rules of the Singapore Exchange Securities Trading Limited (the “Listing Rules”).

On 1 August 2018, the Monetary Authority of Singapore issued a revised Code of Corporate Governance (the “New Code”) which aims to encourage board renewal, strengthen director independence and enhance board diversity. The New Code will take effect for all annual reports covering financial years commencing from 1 January 2019. The Company will implement the New Code for its Annual Report for the financial year beginning 1 April 2019 (“FY2020”).

The Company is generally in compliance with the principles and guidelines as set out in the Code and in areas where there are deviations from the Code, appropriate explanations are provided within this report. The Board considers that the alternative corporate governance practices are sufficient to meet the underlying objective of the Code.

BOARD MATTERS

The Board’s Conduct of its Affairs

Principle 1: Every company should be headed by an effective Board to lead and control the company. The Board is collectively responsible for the long-term success of the company. The Board works with Management to achieve this objective and Management remains accountable to the Board.

Corporate Governance Practices of the Company

The primary role of the Board is to protect and enhance long-term shareholders’ value. Whereas the Board is collectively responsible for the success of the Company, the Board works hand in hand with the Management of the Company (the “Management”) towards achieving this end. The Board reviews Management’s performance and Management remains accountable to the Board. Key roles of the Board include providing entrepreneurial leadership, approving the Company’s objectives, major strategic directions and corporate policies, monitoring and reviewing financial and operating performance, approving annual budgets, major funding and investment proposals, risks assessment and management and appointing any new member to the Board and key personnel. Matters which required Board’s decision includes interested person transactions, material acquisitions and disposal of assets, corporate and financial restructuring, issuances of shares, dividends and other returns to shareholders. The Board manages the Group in the best interests of shareholders as well as the interest of other stakeholders and pursues the continual enhancement of the long-term shareholder value.

All Directors exercise due diligence and independent judgment, and are obliged to act in good faith and consider at all times the best interests of the Company.

To assist the Board in the execution of its responsibilities, various Board Committees, namely the Audit Committee (“AC”), Remuneration Committee (“RC”) and Nominating Committee (“NC”) have been constituted with clearly defined terms of reference. Minutes of the Board Committees meetings are available to all Board members.

All the Board Committees are actively engaged and play an important role in ensuring good corporate governance in the Company and within the Group.

CORPORATE GOVERNANCE REPORT

Please refer to Table 1 – Board and Board Committees.

The Board conducts regular scheduled meetings. Additional meetings may be convened as and when circumstance require. The Company's Constitution do provide for meetings to be held via telephone and video conferencing. The Board and Board Committees may also make decisions through circulating resolutions.

Please refer to Table 2 – Attendance at Board and Board Committee meetings for the financial year ended 31 March 2019 ("FY2019").

The Board's approval is required for the following matters that are likely to have a material impact on the Group's operations as well as matters other than in the ordinary course of business:

1. Major investment and funding
2. Interested Person Transactions
3. Material acquisition and disposal of assets
4. Corporate strategic direction and strategic action plans
5. Issuance of policies and key business initiatives
6. Issuance of shares
7. Declaration of interim dividends and proposal of final dividends
8. Announcement of the Group's quarterly, half year and full year results and the release of the Annual Reports.

The Board has adopted a set of internal controls which sets out authorization and approval limits governing operating and capital expenditure and investments and divestments.

A formal letter will be sent to newly-appointed Directors upon their appointment explaining their duties and obligations as Director. New Directors, upon appointment, will be briefed on the business and organisation structure of the Group, key areas of the Company's operations and on their duties and obligations as Directors.

Directors of the Company will also be updated from time to time of any news or changes to companies and securities legislation, rules and regulations. The Directors also received updates on the business of the Group through regular schedule meetings and ad-hoc Board meetings.

The Company has an on-going budget for all Directors to attend appropriate courses, seminars and conferences for them to stay abreast of the relevant business developments. These include programmes organized by the Singapore Institute of Directors or other training institutions.

Board Composition and Guidance

Principle 2: There should be a strong and independent element on the Board, which is able to exercise objective judgement on corporate affairs independently, in particular, from Management and 10% shareholders. No individual or small group of individuals should be allowed to dominate the Board's decision making.

CORPORATE GOVERNANCE REPORT

Corporate Governance Practices of the Company

Please refer to Table 1 – Board and Board Committees.

The NC reviews the size and composition of the Board and ensures that the Board has an appropriate balance of Independent Directors and that the size of the Board is conducive to effective discussions and decision-making. The Board currently comprises four Directors which include one Executive Director, one Non-Executive Non-Independent Director and two Independent Directors. The NC reviews the independence of each Director on an annual basis. The NC adopts the Code's definition of what constitutes an Independent Director in its review. In particular, it considers a Director as independent if he has no relationship with the Group or its officers that could interfere, or be reasonably perceived to interfere, with the exercise of the Director's independent business judgment with a view to the best interest of the Company. In addition to the annual review by the NC of the independence of the Independent Directors, each Independent Director also submits an annual declaration confirming his continued independence.

As at the date of this report, Mr Wee Phui Gam, the Lead Independent Director of the Company has served on the Board for more than nine years. The NC is of the view that Mr Wee continues to demonstrate his abilities to exercise strong independent judgment in his deliberations and act in the best interests of the Company. Mr Wee's length of service on the Board has not affected his independence from Management. He continues to express his views and debate on issues in connection with the Company's matters and Management's actions. Further, having gained indepth understanding of the business and operating environment of the Group, he provides the Company with the relevant experience and knowledge of the industry.

After taking all these factors into account and having weighed the need for Board refreshment against tenure for relative benefit, the NC has reviewed and determined that Mr Wee continue to be independent, notwithstanding that his services on the Board has exceeded nine years. The NC has recommended to the Board and the Board has, with the NC's recommendation, reviewed his appointment and considers Mr Wee to be independent. The Board is satisfied that Mr Wee has truly demonstrated integrity, independent judgment, objectivity in the discharge of his duties, and professionalism and that there is no conflict of interest in dealings with the Company, rather than simply imposing a maximum number of years that he should serve on the Board, which can be arbitrary.

The NC has reviewed the independence of each Director for FY2019 in accordance with the Code's definition of independence and is satisfied that both Mr Wee Phui Gam and Prof. Jiang Rongguang remain as Independent Directors of the Company.

On 1 September 2018, following the demise of the Company's Non-Executive Chairman, the Company's Lead Independent Director Mr Wee Phui Gam was appointed as the Acting Chairman in the interim period. On 1 December 2018, Mr Sun Bowen, an Executive Director of the Company was re-designated to Non-Executive Non-Independent Director of the Company. As at the date of this report, the Independent Directors make up half of the Board. The Board is of the opinion that the Company currently has a diversified Board with 4 members from different background (finance and industry experts) and countries (Singapore and China).

The NC is responsible for examining the size and composition of the Board and Board Committees. Taking into account the scope and nature of the Group's businesses and operations, the requirements of the business and the need to avoid undue disruptions from changes to the composition of the Board and Board Committees, the Board considers a board size of between 4 to 8 members as appropriate. The Board believes that its current board size and composition effectively serves the Group and is not so large as to be unwieldy. It provides sufficient diversity without interfering with efficient discussion and decision-making.

CORPORATE GOVERNANCE REPORT

The NC also aims to maintain a diversity of expertise, skills and attributes among the Directors and is satisfied that the Board has the appropriate mix of expertise and experience, and collectively possesses the necessary core competencies to lead and govern the Group effectively. The NC reviews the Board's collective skills matrix regularly. Any potential conflicts of interest are taken into consideration. Each Director has been appointed on the strength of his calibre, experience and stature and is expected to bring a valuable range of experience and expertise to contribute to the development of the Group strategy and the performance of its business. Currently, the Board comprises individuals from different countries, namely China and Singapore, and with diverse qualifications and backgrounds, including accounting, finance, investments and the relevant business industry that the Group is in.

Annually, the NC will discuss and agree on the measurable objectives for achieving diversity on the Board and recommend them to the Board for adoption. The Board may, at any time, seek to improve one or more aspects of its diversity and measure progress accordingly. The Company believes that a diverse Board will contribute to the achievement of its strategic and commercial objectives, including to:

1. drive business results;
2. make corporate governance more effective;
3. enhance quality and responsible decision-making capability;
4. ensure sustainable development; and
5. enhance the reputation of the Company.

The Independent Directors communicate regularly to discuss matters such as the Group's financial performance, corporate governance initiatives, board processes, succession planning as well as leadership development.

The Non-Executive Director help to develop proposals on strategy, review the performance of the Management in meeting agreed goals and objectives and monitor the reporting of performance.

Chairman and Chief Executive Officer

Principle 3: There should be a clear division of responsibilities between the leadership of the Board and the executives responsible for managing the company's business. No one individual should represent a considerable concentration of power.

Corporate Governance Practices of the Company

The Board had adopted the recommendation of the Code to have separate persons appointed as Chairman and the Chief Executive Officer ("CEO"). This is to ensure an appropriate balance of power, increased accountability and greater capacity of the Board for independent decision-making.

At Fabchem China Limited, there is a clear division of the roles and responsibilities of the Chairman and the Managing Director ("MD") (equivalent to the position of a CEO). Different individuals assume the Chairman and the Managing Director functions and the posts are, and will remain, separate. Mr Wee Phui Gam, the Lead Independent Director is the Company's Acting Chairman and assumes responsibility among others, in leading the Board to ensure its effectiveness and promoting high standards of corporate governance. The Managing Director, Mr Bao Hongwei assumes the executive responsibilities of the day-to-day management of the Company. This division of responsibilities has been agreed among the Board members.

The Board is of the view that there are sufficient safeguards and checks to ensure that the process of decision making by the Board is independent and based on collective decisions without any individual exercising any considerable power or influence. Further, the AC, RC and NC are chaired by Independent Director.

CORPORATE GOVERNANCE REPORT

The Board had adopted the recommendation of the Code to appoint Mr Wee Phui Gam to be the Lead Independent Director. Mr Wee will be available to shareholders where they have concerns for which contact through the normal channels of the MD has failed to resolve or is inappropriate. In addition, the Lead Independent Director will co-ordinate and lead the Independent Directors to provide a non-executive perspective and contribute to a balance of viewpoints on the Board. Where necessary, the Lead Independent Director will chair meeting with Independent Directors without Executive Directors being present so as to facilitate well-balanced viewpoints to the Board.

Board Membership

Principle 4: There should be a formal and transparent process for the appointment and re-appointment of directors to the Board.

Corporate Governance Practices of the Company

Please refer to Table 1 – Board and Board Committees – on the composition of the NC.

The NC will be responsible for (a) the selection and appointment of any new Directors and re-nomination of the Directors having regard to the Director's contribution and performance, (b) determining annually whether or not a Director is independent and (c) deciding whether or not a Director is able to and has been adequately carrying out his duties as a Director.

In recommending new Directors to the Board, the NC takes into consideration the skills, experience required and the current composition of the Board, and strives to ensure that the Board has an appropriate balance of Independent Directors as well as Directors with the right profile of expertise, skills, attributes and ability. Further, the NC takes into consideration a variety of factors such as attendance, preparedness, participation and candor in evaluating a Director's contribution and performance for the purpose of re-nomination.

The principal functions of the NC is to establish a formal and transparent process for:

- a) reviewing nominations of new Director appointments based on selection criteria such as incumbent's credentials and his/her skills and contributions required by the Company;
- b) reviewing and recommending to the Board the re-election of Directors in accordance with the Company's Constitution;
- c) determining annually whether a Director is "independent", guided by the independent guidelines contained in the Code;
- d) deciding whether a Director is able to and has adequately carried out his/her duties as a Director of the Company, in particular whether the Directors concerned have multiple board representations or if they are in conflict with the interest of the Company; and deciding how the Board's performance may be evaluated and propose objective performance criteria;
- e) deciding how the Board's performance may be evaluated and propose objective performance criteria.

We believe that Board renewal must be an ongoing process, to ensure good governance and to maintain relevance to the business and changing needs of the Company. The Company's Constitution require at least one-third of the Directors to retire and subject themselves to re-election by shareholders at every annual general meeting ("AGM"). In other words, no Director stays in office for more than three years without being re-elected by shareholders.

At the forthcoming AGM, Mr Wee Phui Gam and Mr Sun Bowen will be retiring by rotation pursuant to Article 107 of the Company's Constitution. Both of them, being eligible for re-election, have offered themselves for re-election.

CORPORATE GOVERNANCE REPORT

The NC has recommended to the Board to nominate these Directors for re-election. In making the recommendations, the NC considered the Directors' overall contribution and performance.

New Directors are appointed by way of a Board Resolution, after the NC has approved their nomination. In its search and selection process for new Directors, other than through formal search, the NC taps on the resources of Directors' personal contacts and recommendations of potential candidates and appraises the nominees to ensure that the candidates possess relevant experience and have the calibre to contribute to the Group and its businesses, having regard to the attributes of the existing Board and the requirements of the Group.

Although some of the Directors hold directorships in other companies, the NC is satisfied that sufficient time and attention are being given by the Directors to the affairs of the Company and each Director is able to and has been adequately carrying out his duties as a Director of the Company.

The NC and the Board are of the standpoint that setting a maximum number of listed company board representations would not be meaningful as the contributions of the Directors would depend on many other factors such as whether they are in full time employment and their other responsibilities or principal commitments. In addition, the board representations presently held by its Directors do not impede the performance of their duties to the Company.

All Directors are required to declare their board representations and other principal commitments. In view of the review process that the NC has put in place and the confirmation obtained from each individual Director that he has the individual responsibility to ensure that he can allocate sufficient time and attention to the affairs of the Company, the Board does not adopt any internal guidelines for multiple listed board representations for its Directors.

No alternate Director has been appointed to the Board.

When an existing Director chooses to retire or the need for a new Director arises, either to replace a retiring Director or to enhance the Board's strength, the NC, in consultation with the Board, determines the selection criteria and identifies candidates with the appropriate expertise and experience for the appointment as new Director. The NC then meets with the shortlisted potential candidates with the appropriate profile before nominating the most suitable candidate to the Board for appointment as Director.

The profile of all Board members is set out in the section entitled 'Board of Directors'.

Please refer to Table 3 – Date of Directors' initial appointment and last re-election and their directorships.

Except as disclosed in Table 3, there were no other directorships or chairmanships held by the Directors over the preceding three years in other listed companies.

Board Performance

Principle 5: There should be a formal annual assessment of the effectiveness of the Board as a whole and its board committees and the contribution by each director to the effectiveness of the Board.

Corporate Governance Practices of the Company

The Board, through the NC, has used its best efforts to ensure that Directors appointed to the Board, whether individually or collectively, possess the background, experience, knowledge in the business, competencies in finance and management skills critical to the Group's business. It has also ensured that each Director, with his special contributions, brings to the Board an independent and objective perspective to enable sound, balanced and well-considered decisions to be made.

CORPORATE GOVERNANCE REPORT

The NC has adopted a formal process to assess the performance and effectiveness of the Board as a whole and contribution by each Individual Director to the effectiveness of the Board on an annual basis.

During the financial year, all Directors are requested to complete a Board Evaluation Questionnaire designed to seek their views on the various aspects of the Board's performance so as to assess the overall effectiveness of the Board. The assessment criteria include Directors' attendance records at Board and Committees meetings and the contributions of the Board members. The responses are sent to the NC for review before submitting it to the Board for discussion and for it to determine the areas for improvement and enhancement of the Board's effectiveness. Following the review, the NC and the Board are of the view that the Board and its Board Committees operate effectively and each Director is contributing to the overall effectiveness of the Board.

The performance criteria for the Board evaluation are based on financial and non-financial indicators such as an evaluation of the size and composition of the Board, the Board's access to information, Board's processes, strategy and planning, risk management, accountability, Board's performance in relation to discharging its principal functions, communication with senior management, standards of conduct of the Directors and the Company's share performance over a five-year period.

In terms of evaluation of individual Directors, they are assessed on their ability to contribute effectively as well as the level of their commitment to the role (including commitment of time for Board and Board Committees meetings, and any other duties).

The Chairman acts on the results of the performance evaluation, and where appropriate, proposes new members to be appointed to the Board or seeks the resignation of Directors, in consultation with the NC. Each member of the NC shall abstain from voting on any resolution and making any recommendation and/or participating in any deliberation of the NC in respect of an assessment of his performance or re-nomination as Director.

Access to Information

Principle 6: In order to fulfill their responsibilities, directors should be provided with complete, adequate and timely information prior to board meetings and on an on-going basis so as to enable them to make informed decisions to discharge their duties and responsibilities.

Corporate Governance practices of the Group

All Directors have unrestricted access to the Company's records and information. From time to time, they are furnished with accurate and detailed information in a timely manner concerning the Group to enable them to be fully cognisant of the decisions and actions of the Group's executive Management.

As a general rule, detailed Board papers prepared for each meeting are normally circulated in advance of each meeting. This is to give Directors sufficient time to review and consider the matters to be discussed so that discussion can be more meaningful and productive. However, sensitive matters may be tabled at the meeting itself or discussed without papers being distributed. The Board papers include sufficient background explanatory information from the Management on financial, business and corporate issues to enable the Directors to be properly briefed on issues to be considered at Board and Board Committees meetings. Such explanatory information may also be in the form of briefings to provide additional insights to the Directors or formal presentations made by senior management staff in attendance at the meetings, or by external consultants engaged on specific projects.

The Board has separate and independent access to the Company Secretary and to other senior management executives of the Group at all times in carrying out their duties.

CORPORATE GOVERNANCE REPORT

The Management provided to the Board members with the management accounts on a quarterly basis, as well as adequate information prior to Board meetings and updates on initiatives and developments of the Group's business whenever possible, on an on-going basis.

The Board members have separate and independent access to the Company's senior management. The Board members (whether individually or as a group) have, in the furtherance of their duties, access to independent professional advice, if necessary, at the Company's expense.

The Company Secretary or her nominee administers and attends all Board and Board Committees meetings of the Company and prepares minutes of meetings. She is responsible for, among other things, ensuring that Board procedures are observed and that applicable rules and regulations are complied with. The Company Secretary also assists the Chairman and the Board in implementing and strengthening corporate governance practices and processes.

The appointment and the removal of the Company Secretary are subject to the Board's approval.

The Directors, in furtherance of their duties, are entitled to take independent professional advice at the expense of the Company when necessary.

REMUNERATION MATTERS

Procedures for Developing Remuneration Policies

Principle 7: There should be a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual directors. No director should be involved in deciding his own remuneration.

Corporate Governance Practices of the Company

Please refer to Table 1 – Board and Board Committees – on the composition of the RC.

According to the terms of reference of the RC, the role of the RC is to assist the Board with establishing and implement a framework for remuneration of Directors and key management personnel.

The RC is responsible for recommending to the Board a framework of remuneration for the Directors and key management personnel, setting up remuneration policies and determining specific remuneration packages for each Director and key management personnel based on their performance and also reviewing the remuneration thereof. The RC has access to expert professional advice on human resource matters whenever there is a need for external consultation. In its deliberations, the RC takes into consideration industry practices and norms in compensation, in addition to the Company's relative performance to the industry and the performance of the individual Directors. The recommendations of the RC will be submitted for endorsement by the entire Board. All aspects of remuneration, including but not limited to Directors' fees, salaries, allowances, bonuses, options, long-term incentive schemes and benefits in kind shall be considered by the RC.

The RC meets at least once in every financial year. Each member of the RC shall abstain from voting on any resolution and making any recommendation and/or participating in any deliberation of the RC in respect of his remuneration package.

No independent consultant is engaged to conduct a review on the remuneration packages of the Company's Directors and key management personnel for FY2019. The Company will seek external expert advice should such a need arises. The Company has no termination benefits.

CORPORATE GOVERNANCE REPORT

Level and Mix of Remuneration

Principle 8: The level and structure of remuneration should be aligned with the long-term interest and risk policies of the company, and should be appropriate to attract, retain and motivate (a) the directors to provide good stewardship of the company, and (b) key management personnel to successfully manage the company. However, companies should avoid paying more than is necessary for this purpose.

Annual Remuneration Report

Remuneration policy in respect of executive directors and other key management personnel

In its deliberations, the RC will take into consideration industry practices and norms in compensation in addition to the Company's relative performance to the industry and the performance of the individual Directors. No Director will be involved in deciding his own remuneration.

The level of remuneration is structured such that consideration is given to each Director's corporate and individual performance. The RC ensures that the level of remuneration is appropriate to attract, retain and motivate the Directors to run the Company successfully. The performance related elements of remuneration are designed so as to align the interests of Executive Director with those of shareholders. These elements include (1) fixed component (i.e. basic salary); (2) variable component (i.e. performance bonus); (3) benefits provided are consistent with market practices including medical benefits, car allowance, club benefits and housing subsidy. In setting the remuneration packages, the RC takes into consideration the pay and employment conditions within the industry and in comparable companies.

The Company has entered into separate service contracts with the Executive Director for an initial period of 3 years. The RC reviews the compensation commitments for early termination under the service contracts.

Executive Directors do not receive directors' fees. The Non-Executive Non-Independent Director receive monthly consulting fee as the Company's Senior Advisor. The Group recognises the need to pay competitive fees to attract, motivate and retain Non-Executive Director, without being excessive to the extent that his independence is compromised, and thereby maximising shareholder value. Prior to leaving the Company, Non- Executive Directors are encouraged not to sell their shares in the Company, to align their interests with the Company's.

The Company currently does not use any contractual provisions that allows it to reclaim incentive components of remuneration from Executive Director and key management personnel in exceptional circumstances of misstatement of financial results, or of misconduct resulting in financial loss to the company. However, the Company will consider adopting such contractual provisions should the need arise in future.

Long-term Incentive Plans

The Company does not have long-term incentive scheme.

The remuneration of Non-Executive Directors is linked to their level of contribution, taking into account factors such as effort and time spent, and responsibilities of the Directors.

In setting remuneration packages, the Company takes into consideration the remuneration and employment conditions within the same industry and in comparable companies, as well as the Group's relative performance and the performance of the individuals.

CORPORATE GOVERNANCE REPORT

Disclosure on Remuneration

Principle 9: Every company should provide clear disclosure of its remuneration policies, level and mix of remuneration, and the procedure for setting remuneration, in the company's Annual Report. It should provide disclosure in relation to its remuneration policies to enable investors to understand the link between remuneration paid to directors and key management personnel, and performance.

Level and mix of remuneration of directors and key management personnel (who are not also directors or the CEO) for the year ended 31 March 2019.

Please refer to Table 4 – Remuneration Table.

The Executive Director's remuneration comprise mainly his salary, allowances, bonuses and profit sharing awards conditional upon meeting certain profit before tax targets. The details of his remuneration package is given below.

The Company does not have employee share scheme.

The Independent Non-Executive Directors have remuneration packages which comprise of a Directors' fee component. The Directors' fees are based on a scale of fees divided into basic retainer fees as a Director and additional fees for serving on Board Committees and their roles in the Committee. Directors' fees for the Directors are subject to the approval of shareholders at the forthcoming AGM.

Except as disclosed in Table 4 of this report, no Director has received or become entitled to receive a benefit by reason of a contract made by the Company or a related corporation with the director or with a firm of which he is a member or with a company in which he has a substantial financial interest.

ACCOUNTABILITY AND AUDIT

Accountability

Principle 10: The Board should present a balanced and understandable assessment of the company's performance, position and prospects.

Corporate Governance Practices of the Company

The Board has overall responsibility to provide a balance and understandable assessment of the Company's performance, position and prospects in respect of the Company's reports and financial statements and other price sensitive information to regulators and shareholders.

The Management provides all members of the Board with management accounts on a monthly basis.

In line with the SGX Listing Rules, the Board provides a negative assurance statement to the shareholders in respect of the interim financial statements. For the financial year under review, the MD and the Finance Manager (FM) have provided assurance to the Board on the integrity of the Group's financial statements.

The Board and the Board Committees are furnished with management reports containing complete, adequate and timely information, and papers containing relevant background or explanatory information required to support the decision-making process. Management team and the Company's auditors would also provide additional information on the matters for discussion.

CORPORATE GOVERNANCE REPORT

RISK MANAGEMENT AND INTERNAL CONTROLS

Principle 11: The Board is responsible for the governance of risk. The Board should ensure that Management maintains a sound system of risk management and internal controls to safeguard shareholders' interests and the company's assets, and should determine the nature and extent of the significant risks which the Board is willing to take in achieving its strategic objectives.

Corporate Governance Practices of the Company

The AC reviews the adequacy of the Company's internal financial controls, operational and compliance controls, information technology controls and risk management policies and systems established by the Management (collectively "internal controls"). The AC further confirms that the internal audit function is adequately resourced and has appropriate standing within the Company.

The Board is responsible for the overall internal control framework and is fully aware of the need to put in place a system of internal controls within the Group to safeguard shareholders' interests and the Group's assets, and to manage risks. The Board also acknowledges that no cost effective internal control system will preclude all errors and irregularities. A system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can provide only reasonable and not absolute assurance against material misstatement or loss.

The Board has reviewed the effectiveness and confirmed the adequacy of the Company's internal controls. Based on the internal controls established and maintained by the Group, work performed by the internal and external auditors, and reviews performed by Management, various Board Committees and the Board, the Audit Committee and the Board are of the opinion that the Group's internal controls, addressing financial, operational, compliance risks and information technology controls and risk management systems, were adequate as at 31 March 2019.

The Board is satisfied that the system of internal procedures, controls and reviews that the Group has in place provides reasonable assurance against material financial misstatements or loss, safeguarding of assets, the maintenance of proper accounting records, reliability of financial information, compliance with legislation, regulations and best practices and the identification and management of business risks. The Board, with the concurrence of the Audit Committee, is therefore of the opinion that the Group's system of internal controls is adequate to address financial, operational, compliance and information technology controls, and risk management systems of the Group in its current business environment.

The AC and the Board has received assurance from the MD and the FM that the financial records of the Company have been properly maintained and the financial statements give a true and fair view of the Company's operations and finances; and regarding the effectiveness of the Company's risk management and internal control systems.

The Company does not have a Risk Management Committee. However, the Management and the internal auditor regularly reviews the Company's business and operational activities in order to identify areas of significant business risks as well as appropriate measures to control and mitigate these risks. The Management reviews all significant control policies and procedures and highlights all significant matters to the Board and the AC.

In connection with risk management and setting risk tolerances, the Board determines the nature and extent of the significant risks it is willing to tolerate in achieving its strategic objectives and the conduct of its business activities. The risk appetite is translated into risk tolerances which are determined by establishing target control levels and target residual risk ratings for each identified risk. The decision can then be made to accept/tolerate the resulting residual risk level or implement treatment plans or strategies in addition to those already underway or planned to minimize the risk exposure.

CORPORATE GOVERNANCE REPORT

AUDIT COMMITTEE

Principle 12: The Board should establish an Audit Committee (“AC”) with written terms of reference which clearly set out its authority and duties.

Please refer to Table 1 – Board and Board Committees – on the composition of the AC.

The Board is of the view that at least two members of the AC (including the Chairman of the AC) have recent and relevant accounting or related financial management expertise or experience to discharge the AC’s responsibilities.

The AC has explicit authority to investigate any matter within its terms of reference. It has full access to, and the co-operation of the Management and full discretion to invite any Executive Director or key management personnel to attend its meetings. The AC has adequate resources, including access to external consultants and auditors, to enable it to discharge its responsibilities properly.

The AC will provide a channel of communication between the Board, the Management, the internal auditor and external auditors on matters relating to audit. The responsibilities of the Audit Committee include:

- (a) review with the external auditors and where applicable, the internal auditors, their audit plans, their evaluation of the system of internal accounting controls, their letter to Management and the Management’s response;
- (b) review the quarterly and annual financial statements and balance sheet and profit and loss accounts before submission to the Board for approval, focusing in particular on changes in accounting policies and practices, major risk areas, significant adjustments resulting from the audit compliance with accounting standards and compliance with the Listing Manual and any other relevant statutory or regulatory requirements;
- (c) ensure co-ordination between the external auditors and the Management, and review the assistance given by the Management to the auditors, and discuss problems and concerns, if any, arising from the interim and final audits, and any matters which the auditors may wish to discuss (in the absence of the Management, where necessary);
- (d) review and discuss with the external auditors any suspected fraud or irregularity, or suspected infringement of any relevant laws, rules or regulations, which has or is likely to have a material impact on the Group’s operating results or financial position, and the Management’s response;
- (e) review the internal auditors’ report on their checks on whether all of the Group’s safety and security measures and procedures have been complied with, and disclose the results of such checks in the Company’s annual report every year;
- (f) make recommendations to the Board on the appointment, re-appointment and removal of the external auditors and approving the remuneration and terms of engagement of the external auditors;
- (g) review interested person transactions (if any) falling within the scope of Chapter 9 of the SGX-ST Listing Manual;
- (h) review potential conflicts of interest, if any;
- (i) undertake such other reviews and projects as may be requested by the Board, and will report to the Board its findings from time to time on matters arising and requiring the attention of the Audit Committee;
- (j) generally undertake such other functions and duties as may be required by the legislation regulations or the Listing Manual, or by such amendments as may be made thereto from time to time;

CORPORATE GOVERNANCE REPORT

- (k) review the scope and results of the audit and its cost effectiveness, and the independence and objectivity of the external auditors, review the nature and extent of non-audit services, where applicable;
- (l) review the significant financial reporting issues and judgments so as to ensure the integrity of the financial statements and any formal announcements relating to the financial performance;
- (m) review the effectiveness of the internal audit function;
- (n) review arrangements by which the staff may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters; and
- (o) review the adequacy of the internal financial controls, operational and compliance controls, information technology control and risk management policies and systems established by the Management.

In the review of the financial statement for FY2019, the AC had discussed with the Management the accounting principles that were applied and their judgement of matters that might affect the integrity of the financial statements and also considered the appropriateness of the critical accounting estimates and judgements made in preparing the financial statements. The following significant matters impacting the financial statements were discussed with Management and the external auditor and were reviewed by the Audit Committee:

Key Audit Matters	How the AC reviewed these matters and what decisions were made
<p>Impairment assessment of property, plant and equipment and land use rights</p>	<p>The AC considered the approach and methodology applied to the valuation models used in the impairment assessment of property, plant and equipment and land use rights.</p> <p>The AC reviewed the underlying key assumptions used in the value-in-use calculation which involved Management's assessment of the future cash flow forecasts, terminal growth rates and discount rates used in these calculations.</p> <p>The AC was satisfied with the methodology and underlying key assumptions used in the value-in-use calculation.</p> <p>The impairment assessment on property, plant and equipment was also an area of focus for the external auditor. The external auditor has included this item as a key audit matter in its audit report for the financial year ended 31 March 2019. Refer to pages 59 and 60 of this Annual Report.</p>
<p>Impairment assessment of trade receivables</p>	<p>The AC considered the Management's assumptions and estimates used to determine the collective impairment for expected credit loss and individual impairments on trade receivables and had also discussed such assumptions and assessment with the Management.</p> <p>The AC was satisfied with the Management's assumptions and estimates used on the assessment of impairment on trade receivables.</p> <p>The impairment of trade receivables was also an area of focus for the external auditor. The external auditor has included this item as a key audit matter in its audit report for the financial year ended 31 March 2019. Refer to page 60 of this Annual Report.</p>

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Key Audit Matters	How the AC reviewed these matters and what decisions were made
Assessment of recoverability of deferred tax assets	<p>The AC considered the approach and methodology applied to the valuation model used in the assessment of the recoverability of deferred tax assets relating to tax losses carried forward from the Group's subsidiary in China.</p> <p>The AC reviewed the underlying key assumptions used in the future cash flow forecasts that were used to derive the estimated future taxable profits which the tax losses carried forward can be utilised.</p> <p>The assessment of recoverability of deferred tax assets was also an area of focus for the external auditor. The external auditor has included this item as a key audit matter in its audit report for the financial year ended 31 March 2019. Refer to page 61 of this Annual Report.</p>

The AC also meet up with the internal and external auditors without any executive of the Company being present at least once on an annual basis and as and when necessary during the year.

The Audit Committee has reviewed the independence of the Company's external auditors and is satisfied with the independence and objectivity of the external auditors. The aggregate amount of fees paid to the external auditors of the Group for audit services was S\$80,000. The non-audit services provided by the external auditors for the financial year ended 31 March 2019 was S\$73,700 comprised tax compliance work of S\$2,200, sustainability reporting work of S\$12,000 and Special audit for acquisition of Laizhou Ping'an of S\$59,500 which AC approval has been obtained for the special audit. The AC is of the opinion that the independence and objectivity of the external auditors would not be impaired by the provision of these non-audit services. The AC has also recommended the re-appointment of the auditors to the Board.

The Company has in place whistle-blowing policies and arrangements by which the staff may, in confidence, raise concerns about possible corporate improprieties in matters of financial reporting or other matters to ensure independent investigation of such matters and for appropriate follow up action, all whistle-blowing reports are to be sent to the head of the internal audit function. The internal auditor and the Chairman of the AC will be informed immediately of all whistle-blowing reports received.

There were no reported incidents pertaining to whistle-blowing for FY2019.

As at the date of this Annual Report, the AC has met with the external auditors separately without the presence of Management to review any area of audit concern.

The AC is kept abreast by the Management and the external auditors of changes to accounting standards, Listing Rules of the SGX-ST and other regulations which could have an impact on the Group's business and financial statements. In FY2019, the Company's external auditors RSM Chio Lim LLP conducted a briefing session for the Board on the changes to the accounting standards, laws and regulations during the quarterly AC meetings. Continuing education is also provided to update and enhance the skills and knowledge of members in the AC. Following a self-review, AC is satisfied that it had been adequately fulfilling its duties.

The Group has appointed different auditors for its overseas subsidiaries. The Board and Audit Committee have reviewed that the appointment of different auditors for its overseas subsidiaries and were satisfied that the appointment of different auditors would not compromise the standard and effectiveness of the audit of the Group. The Company is in compliance with Rules 712, 715 and 716 of the Listing Rules in relation to its independent auditors.

CORPORATE GOVERNANCE REPORT

Internal Audit

Principle 13: The company should establish an effective internal audit function that is adequately resourced and independent of the activities it audit.

Corporate Governance Practices of the Company

The Company has set up an Internal Audit (“IA”) function to provide internal audit services to the Company. The IA’s function is to report to the AC on audit matters and oversee and institute the function of internal audits, prepare timely reports and communications to the various Committees, and administrative and operational matters to the Board. The internal auditor will also conduct checks on whether the Company’s safety and security measures and procedures are complied with and will issue reports to the AC. These safety and security measures are disclosed in the section entitled “Safety and Security Compliance” of this Annual Report. The AC approves the hiring, removal, evaluation and compensation of the internal auditor. The internal auditor is a member of the Institute of Singapore Chartered Accountants and a fellow member of the Association of Chartered Certified Accountants.

To ensure the internal auditor’s ability to discharge its functions satisfactorily, the internal auditor is given unfettered access to all the Company’s documents, records, properties and personnel (including access to the AC).

In FY2019, the AC met with the internal auditor without the presence of Management. The AC will continue to review specific audit risk areas and ensure that the IA function as discharged by the internal auditor is adequate and effective.

SHAREHOLDER RIGHTS AND RESPONSIBILITIES

Shareholder Rights

Principle 14: Companies should treat all shareholders fairly and equitably, and should recognise, protect and facilitate the exercise of shareholders’ rights, and continually review and update such governance arrangements.

Corporate Governance Practices of the Company

The Company is committed to engage in regular and timely communication with shareholders as part of the organisation’s development to build systems and procedures that will enable the Group to compete internationally. The Company places great emphasis on investor relations and strives to maintain a high standard of transparency and to promote better investor communications. It aims to provide investors with clear, balanced and useful information, on a timely basis, about the Group’s performance, financial position and prospects.

Management supported the Code’s principle to encourage shareholder participation. Shareholders are encouraged to attend the AGM to ensure a high level of accountability and to stay informed of the Company’s strategy and goals. Notice of the AGM is despatched to shareholders, together with explanatory notes or a circular on items of special business (if necessary), at least 14 days or 21 days, as the case may be, before the meeting. The Board welcomes questions from shareholders who have an opportunity to raise issues either informally or formally before or at the AGM.

The Company’s shareholders are given the right, among other rights, to participate in the approval of Directors’ fees for the Non-Executive Directors. The Company’s voting and vote tabulation procedures are properly disclosed and explained by the Scrutineer during the AGM. Voting results on all matters for shareholder approval during the AGM are announced by way of announcements made on the SGXNET on the same day, including approving, dissenting and abstaining votes.

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Whilst there is no limit imposed on the number of proxy votes for nominee companies, the Constitution of the Company allows each shareholder to appoint up to two proxies to attend AGMs. The Proxy Form is included in the Annual Report and sent out to all shareholders prior to the AGM.

COMMUNICATION WITH SHAREHOLDERS

Principle 15: Companies should actively engage their shareholders and put in place an investor relations policy to promote regular, effective and fair communication with shareholders.

The Company has not put in place an investor relations policy to promote regular and proactive communication with shareholders. The Company will review such need going forward.

The Company believes in engaging a regular, effective and fair communication with its shareholders and is committed to convey pertinent information to its shareholders on a timely basis. The Company takes care to ensure that information that is made publicly available on a timely basis. Disclosure of information is made through announcements released to the SGX-ST, the Company's annual reports, circulars, press releases, as well as on the corporate website (www.fabchemchina.com) which has a dedicated investor relations section.

The Company does not practice selective disclosure. In line with continuous obligations of the Company pursuant to the SGX-ST Listing Manual and the Companies Act (Cap 50) of Singapore, the Board's policy is that all shareholders should be equally and timely informed of all major developments that will impact the Company or the Group. Information is communicated to shareholders on a timely basis through the Singapore Exchange Network (the "SGXNET") and the press.

Shareholders and investors are also encouraged to contact the Group's investor relations contact, being Mr Alex Tan, at this email address: alex.tan@8prasia.com or ir@fabchemchina.com. This channel of communication is designed to facilitate regular and effective communication in an open and non-discriminatory approach on changes to the Company as well as its performance or business developments which would be likely to materially affect the price or value of the shares. The Group's investor relations contact endeavour to respond to shareholder queries promptly and effectively, and usually does so within a week of receiving such queries.

CONDUCT OF SHAREHOLDER MEETINGS

Principle 16: Companies should encourage greater shareholder participation at general meetings of shareholders, and allow shareholders the opportunity to communicate their views on various matters affecting the company.

Corporate Governance Practices of the Company

Shareholders are informed of shareholders' meetings through notices contained in annual reports or circulars sent to all shareholders. These notices are also published in the Business Times and posted onto the SGXNET.

If shareholders are unable to attend the meetings, the Constitution allows a shareholder of the Company to appoint up to two proxies to attend and vote in place of the shareholder.

Resolutions at general meetings are on each substantially separate issue. All the resolutions at the general meetings are single item resolutions.

CORPORATE GOVERNANCE REPORT

All Directors, including the Chairmen of the Board, AC, NC and RC, are present and available to address questions from shareholders at general meetings. The external auditors are also present to address shareholders queries in relation to the conduct of the audits and the preparation and contents of the auditors' reports.

The Board views the AGM as the principal forum for dialogue with shareholders, being an opportunity for shareholders to raise issues pertaining to the proposed resolutions and/or ask the Directors or the Management questions regarding the Company and its operations.

To promote greater transparency in the voting process and in accordance with the Listing Manual, the Company conducts the voting of all its resolutions by poll at all its AGMs and EGMs. The detailed voting results of each of the resolutions tabled are announced immediately at the meeting. The total number of votes cast for or against the resolutions are also announced after the meeting via SGXNET.

Minutes of general meetings are prepared, which includes substantial and relevant comments or queries from shareholders relating to the agenda of the meeting, as well as responses from the Board and Management. Such meeting minutes are made available to shareholders upon their request.

The Group has a dividend policy of distributing at least 10% of profit attributable to shareholders every financial year.

DEALING IN SECURITIES

The Group has adopted an internal code in relation to dealings in the Company's securities pursuant to rule 1207(19) of the SGX- ST Listing Manual that is applicable to the Company and all its officers. The internal code prohibits the officers from dealing in the Company's shares on short-term considerations. The Company has in place a policy prohibiting share dealings by Directors and employees of the Company for the period of two weeks before the announcement of the Company's financial results for the first three quarters of its financial year, or one month prior to the announcement of the Company's full year results; and ending on the date of the announcement of the relevant results.

Directors and Executives are also expected to observe insider trading laws at all times even when dealing with securities within the permitted trading period.

MATERIAL CONTRACTS

Save as disclosed in the Interested Person Transactions section, there are no material contracts entered into by the Company or its subsidiaries involving the interest, direct or deemed, of the Managing Director or any Director or controlling shareholders (as defined in the SGX-ST Listing Manual), during the financial year ended 31 March 2019.

INTERESTED PERSON TRANSACTIONS

The Company has established procedures to ensure that all transactions with interested persons are reported in a timely manner to the AC and that such transactions are carried out at arms' length and on normal commercial terms and will not be prejudicial to the interests of the Company, its subsidiaries and its minority shareholders. The AC will review and approve all interested person transactions as defined by the SGX-ST Listing Manual.

CORPORATE GOVERNANCE REPORT

During the financial year ended 31 March 2019, the following interested person transactions were entered into by the Group:

Name of interested person	Nature	Aggregate value of all interested person transaction (excluding transactions less than \$100,000 and transactions conducted under a shareholders' mandate pursuant to Rule 920)		Aggregate value of all interested person transactions conducted under a shareholders' mandate pursuant to Rule 920 (excluding transactions less than \$100,000)	
		FY2019	FY2018	FY2019	FY2018
		RMB'000	RMB'000	RMB'000	RMB'000
Dyno Nobel ⁽¹⁾	Sales of commercial explosives	–	–	24,018	13,092
Shandong Yinguang Security Services Co., Ltd ⁽²⁾	Provision of security services	–	6,500	6,200	–
Wulian Hanyue Blasting Services Co., Ltd ⁽²⁾	Sales of commercial explosives	–	5,060	1,903	3,214
Shandong Yinguang Machinery Manufacturing Co., Ltd	Purchase of equipment	–	596	–	–
Shandong Yinguang Tianhong Property Development Co., Ltd ⁽³⁾	Purchase of leasehold property	–	–	–	28,153

Footnotes:

- (1) The relevant general mandate was approved at the Extraordinary General Meeting held on 10 November 2011 and was updated and approved at the Annual General Meeting held on 31 July 2018. Transactions with Dyno Nobel will cease to be considered as Interested Party Transactions after the divestment of shares by DNX Australia Pty Limited on 15 March 2019.
- (2) The relevant general mandate was approved at the Extraordinary General Meeting held on 31 July 2017 and was updated and approved at the Annual General Meeting held on 31 July 2018.
- (3) The relevant mandate was approved at the Extraordinary General Meeting held on 31 July 2017.

USE OF PROCEEDS

For the financial year ended 31 March 2019, the Group has a total unutilised IPO proceeds of approximately RMB 2.0 million (FY2018: RMB 2.0 million).

The Board will continue to make periodic announcement on the utilisation of the balance of the IPO proceeds until the whole of the IPO proceeds has been fully disbursed.

CORPORATE GOVERNANCE REPORT

TABLE 1 – BOARD AND BOARD COMMITTEES

Name of Director	Board Membership	Audit Committee	Remuneration Committee	Nominating Committee
Bao Hongwei	Executive/Non-Independent	–	–	–
Wee Phui Gam	Non-Executive/Independent	Chairman	Chairman	Chairman
Prof. Jiang Rongguang	Non-Executive/Independent	Member	Member	Member
Sun Bowen ⁽¹⁾	Non-Executive Non-Independent	Member	Member	Member

(1) Mr. Sun Bowen was re-designated from Executive Director to Non-Executive Non-Independent Director and appointed as a member of AC, RC and NC on 1 December 2018.

TABLE 2 – ATTENDANCE AT BOARD AND BOARD COMMITTEES MEETINGS

	BOARD		AUDIT		REMUNERATION		NOMINATING	
	No. of Meetings	No of Meetings Attended	No. of Meetings	No of Meetings Attended	No. of Meetings	No of Meetings Attended	No. of Meetings	No of Meetings Attended
Dr Lim Seck Yeow ⁽¹⁾	4	2	4	2	1	1	1	1
Bao Hongwei	4	4	–	–	–	–	–	–
Wee Phui Gam	4	4	4	4	1	1	1	1
Prof. Jiang Rongguang	4	4	4	4	1	1	1	1
Sun Bowen ⁽²⁾	4	4	4	1	–	–	–	–

(1) Dr Lim Seck Yeow passed away on 1 September 2018.

(2) Mr. Sun Bowen was appointed as a member of the AC, RC and NC on 1 December 2018.

TABLE 3 – DATE OF DIRECTOR'S INITIAL APPOINTMENT & LAST RE-ELECTION & THEIR DIRECTORSHIPS

Name of Director	Age	Appointment	Date of initial appointment	Date of last re-election	Present directorships in listed companies	Past (preceding 3 years) directorships in listed companies	Other principal commitments
Bao Hongwei	49	Managing Director	16 June 2005	31 July 2017	Nil	Nil	Nil
Wee Phui Gam	65	Lead Independent Director	15 October 2009	31 July 2017	Imperium Crown Limited	Nil	Managing Partner at P G Wee Partnership LLP Director at P G Tax Services Pte Ltd Partner at Y.C. Lee & Co.
Prof. Jiang Rongguang	68	Independent Director	11 October 2010	31 July 2018	Nil	Nil	Chief Technical Specialist in initiation systems of the Commercial Explosives Technology of Nanjing University Of Science and Technology
Sun Bowen	68	Non-Executive Non-Independent Director	16 June 2005	28 July 2016	Imperium Crown Limited	Nil	Director at Shandong Yinguang Technology Co., Ltd and Shandong Yinguang Wen Chuang Yuan Co., Ltd

CORPORATE GOVERNANCE REPORT

TABLE 4 – REMUNERATION TABLE

a) Directors' remuneration

For competitive reasons, the Company is not disclosing the annual remuneration of each individual Director for the financial year ended 31 March 2019. Instead, we are disclosing the bands of remuneration as follows:

Name of Director	S\$0 to S\$250,000	Directors' Fees ⁽¹⁾ (%)	Fixed Salary (%)	Consulting Fees (%)
Executive Directors				
Bao Hongwei	✓	–	100.0	–
Independent Directors				
Wee Phui Gam	✓	100.0	–	–
Jiang Rongguang	✓	100.0	–	–
Non-Executive Non-Independent Director				
Sun Bowen ⁽²⁾	✓	13.8	68.8	17.4

(1) The remuneration in the form of Directors' fees is subject to the approval of the shareholders at the forthcoming AGM.

(2) Mr. Sun Bowen was re-designated from Executive Director to Non-Executive Non-Independent Director on 1 December 2018.

b) Top Five Key Management Personnel Remuneration

Details of remuneration paid to the key management personnel (who are not Directors of the Company) of the Group for the financial year ended 31 March 2019 are set out below. For competitive reasons, the Company is only disclosing the band of remuneration for each key management personnel for the financial year ended 31 March 2019 under review as follows:

Name of Key Management Personnel	Below S\$250,000	Percentage of Variable Remuneration (%)	Percentage of Fixed Remuneration (%)
Chen Rui ⁽¹⁾	✓	–	100.0
Sun Qiang	✓	–	100.0
Yang Xingdong	✓	–	100.0
Kwek Wei Lee	✓	–	100.0
Chen Hongyu	✓	–	100.0

(1) Mr. Chen Rui resigned on 15 August 2019.

The annual aggregate remuneration paid to the top five key management personnel is approximately S\$460,000.

There are no termination, retirement and post-employment benefits granted to the Directors, the CEO and the top 5 key management personnel (who are not Directors or CEO) of the Group.

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c) Immediate families of Directors

Sun Qiang is the son of the Non-Executive Non-Independent Director whose remuneration exceeded S\$50,000 during the financial year ended 31 March 2019. 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 2019.

DISCLOSURE OF INFORMATION ON DIRECTORS SEEKING RE-ELECTION

Mr Wee Phui Gam and Mr Sun Bowen are the Directors seeking re-election at the forthcoming Annual General Meeting of the Company to be convened on 31 July 2019 (“AGM”) (collectively, the “Retiring Directors” and each a “Retiring Director”).

Pursuant to Rule 720(6) of the Listing Manual of the SGX-ST, the following is the information relating to the Retiring Directors as set out in Appendix 7.4.1 to the Listing Manual of the SGX-ST:

	Mr. Wee Phui Gam	Mr. Sun Bowen
Date of Appointment	15 October 2009	16 June 2005
Date of last re-appointment	31 July 2017	28 July 2016
Age	65	68
Country of principal residence	Singapore	China
The Board’s comments on this appointment (including rationale, selection criteria, and the search and nomination process)	The re-election of Mr Wee Phui Gam as the Lead Independent Director of the Company was recommended by the NC and the Board has accepted the recommendation, after taking into consideration his expertise, performance, overall contributions, and competencies in fulfilling his responsibilities.	The re-election of Mr Sun Bowen as the Non-Executive Non-Independent Director of the Company was recommended by the NC and the Board has accepted the recommendation, after taking into consideration his expertise, performance, overall contributions, and competencies in fulfilling his responsibilities.
Whether appointment is executive, and if so, the area of responsibility	Non-Executive / Independent	Non-Executive / Non-Independent
Job Title (e.g. Lead ID, AC Chairman, AC Member , etc)	Acting Chairman and Lead Independent Director, Chairman of Audit, Nominating and Remuneration Committees	Non-Executive Non-Independent Director, member of the Audit, Nominating and Remuneration Committees
Any relationship (including immediate family relationships) with any existing director, existing executive officer, the issuer and/or substantial shareholder of the listed issuer or of any of its principal subsidiaries	No	No
Conflict of Interests (including any competing business)	No	No
Undertaking (in the format set out in Appendix 7.7) under Rule 720(1) has been submitted to the listed issuer	Yes	Yes

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	Mr. Wee Phui Gam	Mr. Sun Bowen
Other Principal Commitments* Including Directorships#		
Past (for the last 5 years)	Nil	Nil
Present	<ul style="list-style-type: none"> - Imperium Crown Limited (Lead Independent director) - P G Wee Partnership LLP (Managing Partner) - P G Tax Services Pte Ltd (Director) - Y.C. Lee & Co. (Partner) 	<ul style="list-style-type: none"> - Imperium Crown Limited (Executive Chairman) - Shandong Yinguang Technology Co., Ltd (Director) - Shandong Yinguang Wen Chuang Yuan Co., Ltd (Director)
Disclose the following matters concerning an appointment of director, chief executive officer, chief financial officer, chief operating officer, general manager or other officer of equivalent rank. If the answer to any question is “yes”, full details must be given.		
(a) Whether at any time during the last 10 years, an application or a petition under any bankruptcy law of any jurisdiction was filed against him or against a partnership of which he was a partner at the time when he was a partner or at any time within 2 years from the date he ceased to be a partner?	No	No
(b) Whether at any time during the last 10 years, an application or a petition under any law of any jurisdiction was filed against an entity (not being a partnership) of which he was a director or an equivalent person or a key executive, at the time when he was a director or an equivalent person or a key executive of that entity or at any time within 2 years from the date he ceased to be a director or an equivalent person or a key executive of that entity, for the winding up or dissolution of that entity or, where that entity is the trustee of a business trust, that business trust, on the ground of insolvency?	No	No
(c) Whether there is any unsatisfied judgment against him?	No	No
(d) Whether he has ever been convicted of any offence, in Singapore or elsewhere, involving fraud or dishonesty which is punishable with imprisonment, or has been the subject of any criminal proceedings (including any pending criminal proceedings of which he is aware) for such purpose?	No	No

CORPORATE GOVERNANCE REPORT

	Mr. Wee Phui Gam	Mr. Sun Bowen
(e) Whether he has ever been convicted of any offence, in Singapore or elsewhere, involving a breach of any law or regulatory requirement that relates to the securities or futures industry in Singapore or elsewhere, or has been the subject of any criminal proceedings (including any pending criminal proceedings of which he is aware) for such breach?	No	No
(f) Whether at any time during the last 10 years, judgment has been entered against him in any civil proceedings in Singapore or elsewhere involving a breach of any law or regulatory requirement that relates to the securities or futures industry in Singapore or elsewhere, or a finding of fraud, misrepresentation or dishonesty on his part, or he has been the subject of any civil proceedings (including any pending civil proceedings of which he is aware) involving an allegation of fraud, misrepresentation or dishonesty on his part?	No	No
(g) Whether he has ever been convicted in Singapore or elsewhere of any offence in connection with the formation or management of any entity or business trust?	No	No
(h) Whether he has ever been disqualified from acting as a director or an equivalent person of any entity (including the trustee of a business trust), or from taking part directly or indirectly in the management of any entity or business trust?	No	No
(i) Whether he has ever been the subject of any order, judgment or ruling of any court, tribunal or governmental body, permanently or temporarily enjoining him from engaging in any type of business practice or activity?	No	No
(j) Whether he has ever, to his knowledge, been concerned with the management or conduct, in Singapore or elsewhere, of the affairs of:- i. any corporation which has been investigated for a breach of any law or regulatory requirement governing corporations in Singapore or elsewhere; or	No	No

CORPORATE GOVERNANCE REPORT

	Mr. Wee Phui Gam	Mr. Sun Bowen
<p>ii. any entity (not being a corporation) which has been investigated for a breach of any law or regulatory requirement governing such entities in Singapore or elsewhere; or</p> <p>iii. any business trust which has been investigated for a breach of any law or regulatory requirement governing business trusts in Singapore or elsewhere; or</p> <p>iv. any entity or business trust which has been investigated for a breach of any law or regulatory requirement that relates to the securities or futures industry in Singapore or elsewhere</p> <p>in connection with any matter occurring or arising during that period when he was so concerned with the entity or business trust?</p>		
k) Whether he has been the subject of any current or past investigation or disciplinary proceedings, or has been reprimanded or issued any warning, by the Monetary Authority of Singapore or any other regulatory authority, exchange, professional body or government agency, whether in Singapore or elsewhere?	No	No
Disclosure applicable to the appointment of Director only		
<p>Any prior experience as a director of a listed company?</p> <p>If yes, please provide details of prior experience.</p> <p>If no, please state if the director has attended or will be attending training on the roles and responsibilities of a director of a listed issuer as prescribed by the Exchange.</p> <p>Please provide details of relevant experience and the nominating committee's reasons for not requiring the director to undergo training as prescribed by the Exchange (if applicable).</p>	<p>Yes</p> <p>Mr. Wee Phui Gam is presently already a Director of the Company.</p>	<p>Yes</p> <p>Mr. Sun Bowen is presently already a Director of the Company.</p>

The professional qualifications, working experience and other relevant information of the members of the Board are set out on pages 12 and 13 to the Annual Report.

The Directors' interests in shares are disclosed on pages 56 and 57 of the Statement by Directors.

STATEMENT BY DIRECTORS

The directors of Fabchem China Limited (the “company”) are pleased to present the consolidated financial statements of the group and statement of financial position and statement of changes in equity of the company for the reporting year ended 31 March 2019.

1. Opinion of the directors

In the opinion of the directors,

- (a) the accompanying financial statements and the consolidated financial statements are drawn up so as to give a true and fair view of the consolidated financial position of the group and the financial position of the company as at 31 March 2019 and of the consolidated financial performance, consolidated changes in equity and consolidated cash flows of the group and the changes in equity of the company for the reporting year covered by the financial statements or consolidated financial statements; and
- (b) at the date of the statement there are reasonable grounds to believe that the company will be able to pay its debts as and when they fall due.

The board of directors approved and authorised these financial statements for issue.

2. Directors

The directors of the company in office at the date of this statement are:

Bao Hongwei
Sun Bowen
Wee Phui Gam
Prof. Jiang Rongguang

3. Directors’ interests in shares and debentures

The directors of the company holding office at the end of the reporting year were not interested in shares in or debentures of the company or other related body corporate as recorded in the register of directors’ shareholdings kept by the company under section 164 of the Companies Act, Chapter 50 (the “Act”) except as follows:

Name of company and directors in which interests are held	Direct Interest	
	At beginning of the reporting year	At end of the reporting year
	<u>Number of shares of no par value</u>	
Bao Hongwei	957,600	957,600
	Deemed Interest	
Name of company and directors in which interests are held	At beginning of the reporting year	At end of the reporting year
	<u>Number of shares of no par value</u>	
<u>Fortsmith Investments Limited</u>		
Sun Bowen	15,140,000	15,140,000
<u>Lombard Inc.</u>		
Bao Hongwei	1,720,800	1,720,800

STATEMENT BY DIRECTORS

3. Directors' interests in shares and debentures (continued)

The directors' interests as at 21 April 2019 were the same as those at the end of the reporting year.

By virtue of section 7 of the Act, Mr Sun Bowen with the above deemed interest is also deemed to have an interest in all the related corporations of the company.

4. Arrangements to enable directors to acquire benefits by means of the acquisition of shares and debentures

Neither at the end of the reporting year nor at any time during the reporting year did there subsist arrangements to which the company is a party, being arrangements whose objects are, or one of whose objects is, to enable directors of the company to acquire benefits by means of the acquisition of shares in or debentures of the company or any other body corporate.

5. Options

During the reporting year, no option to take up unissued shares of the company or other body corporate in the group was granted.

During the reporting year, there were no shares issued by virtue of the exercise of an option to take up unissued shares.

At the end of the reporting year, there were no unissued shares under option.

6. Report of audit committee

The members of the audit committee at the date of this report are as follows:

Wee Phui Gam (Chairman)
Sun Bowen
Prof. Jiang Rongguang

The audit committee carried out its the functions in accordance with section 201B(5) of the Act. Among other functions, it performed the following:

- Reviewed with the independent external auditor their audit plan;
- Reviewed with the independent external auditor their evaluation of the company's internal accounting controls relevant to their statutory audit, and their report on the financial statements and the assistance given by the company's officers to them;
- Reviewed with the internal auditor the scope and results of the internal audit procedures (including those relating to financial, operational and compliance controls and risk management) and the assistance given by the management to the internal auditor;
- Reviewed the financial statements of the group and the company prior to their submission to the directors of the company for adoption; and
- Reviewed the interested person transactions (as defined in Chapter 9 of the Singapore Exchange Securities Trading Limited's Listing Manual).

STATEMENT BY DIRECTORS

6. Report of audit committee (continued)

Other functions performed by the audit committee are described in the report on corporate governance included in the annual report of the company. It also includes an explanation of how independent auditor objectivity and independence is safeguarded when the independent auditors provide non-audit services.

The audit committee has recommended to the board of directors that the independent auditors, RSM Chio Lim LLP, be nominated for re-appointment as independent auditors at the next annual general meeting of the company.

7. Independent auditor

RSM Chio Lim LLP has expressed willingness to accept re-appointment.

8. Directors' opinion on the adequacy of internal controls

Based on the internal controls established and maintained by the company, work performed by the internal auditor and reviews performed by management, other committees of the board and the board, the audit committee and the board are of the opinion that company's internal controls, addressing financial, operational, compliance risks and information technology controls and risk management systems, were adequate as at the end of the reporting year 31 March 2019.

9. Subsequent developments

There are no significant developments subsequent to the release of the group's and the company's preliminary financial statements, as announced on 30 May 2019, which would materially affect the group's and the company's operating and financial performance as of the date of this report.

On behalf of the directors

Bao Hongwei
Director

27 June 2019

Sun Bowen
Director

INDEPENDENT AUDITOR'S REPORT

To the Members of Fabchem China Limited (Registration No: 200413128G)

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Fabchem China Limited (the “company”) and its subsidiaries (the “group”), which comprise the consolidated statement of financial position of the group and the statement of financial position of the Company as at 31 March 2019, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the group and the statement of changes in equity of the company for the reporting year then ended, and notes to the financial statements, including significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements of the group and the statement of financial position and statement of changes in equity of the company are properly drawn up in accordance with the provisions of the Companies Act, Chapter 50 (the “Act”) and Singapore Financial Reporting Standards (International) (“SFRS (I) s”) so as to give a true and fair view of the consolidated financial position of the group and the financial position of the company as at 31 March 2019 and of the consolidated financial performance, consolidated changes in equity and consolidated cash flows of the group and the changes in equity of the company for the reporting year ended on that date.

Basis for opinion

We conducted our audit in accordance with Singapore Standards on Auditing (“SSAs”). Our responsibilities under those standards are further described in the Auditors’ Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the group in accordance with the Accounting and Corporate Regulatory Authority (“ACRA”) Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities (“ACRA Code”) together with the ethical requirements that are relevant to our audit of the financial statements in Singapore, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the ACRA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current reporting year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

(a) Impairment assessment of property, plant and equipment and land use rights

Risk

The group owns property, plant and equipment and land use rights in the People’s Republic of China (“PRC”). These represent 49% (or RMB163.9 million) of the group’s total assets as at 31 March 2019.

The group incurred losses for the past three reporting years. In addition, there were new regulatory directives issued during the year which could potentially lead to technology obsolescence for certain production lines.

Management determines at the end of each reporting year the existence of any objective evidence that the carrying value of these assets may be impaired. If there are indicators of impairment, the deficit between the recoverable amount and their carrying value would be recognised in profit and loss.

The group has made impairment allowance of RMB70.5 million and RMB48.5 million to write down the carrying value of the leasehold properties and plant and equipment respectively to their recoverable value as at 31 March 2019.

INDEPENDENT AUDITOR'S REPORT

To the Members of Fabchem China Limited (Registration No: 200413128G)

Key audit matters (continued)

(a) Impairment assessment of property, plant and equipment and land use rights (continued)

Our response

With involvement of our internal valuation specialist, we evaluated management's assessment of impairment indicators. We tested management's assumptions and integrity of inputs used in value-in-use calculation (discounted cash flow method). We also challenged the growth rates and discount rates used in the computations by comparing them against historical rates and taking into consideration comparability and market factors. Where the rates were outside the expected range, we undertook further procedures to understand the effect of additional factors and, when necessary, held further discussions with management.

We also considered the adequacy of the disclosures in the financial statements in describing the inherent degree of subjectivity and key assumptions in the estimates as disclosed in Note 2C, Note 12 and Note 13 of the consolidated financial statements.

(b) Impairment assessment of trade receivables

Risk

Trade receivables accounted for 9% (or RMB29.3 million) of the group's total assets as at 31 March 2019. Allowance for impairment are made for expected credit losses using a provision matrix and it is considered to be a matter of most significance as it requires significant management's judgements and estimates in determining the recoverability of trade receivables for impairment assessment and, where relevant, incorporated forward-looking information that reflect management's view of potential future economic conditions. At the end of the reporting year, the group had made collective impairments of approximately RMB7.1 million for expected credit losses, representing 16% of total gross trade receivables.

In addition, the group also made allowance for individual impairments of those credit-impaired trade receivables of approximately RMB9.4 million, representing 21% of total gross trade receivables.

Related disclosures of the accounting judgements and estimates and impairment of trade receivables are included in notes 2C and note 17 of the consolidated financial statements.

Our response

With involvement of the component auditors, we have reviewed the collective impairments assessments by obtaining an understanding of provision matrix developed by the group and assessed management's assumptions and estimates, in particular, the historical observed default rates of trade receivables grouped based on shared credit risk characteristics and those relating to forward-looking information.

In addition, we also evaluated the management's assumptions and estimates used to determine the individual impairments taking into account the local facts and circumstances which are considered key considerations for each credit-impaired receivables.

We also considered the adequacy of the loss allowance recorded as at end of the reporting year and the disclosures made in the consolidated financial statements in describing the inherent degree of subjectivity and key assumptions in the estimation of the impairment loss on trade receivables and its related risks such as credit risk and the aging of trade receivables as disclosed in Note 2C and Note 17 of the consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT

To the Members of Fabchem China Limited (Registration No: 200413128G)

Key audit matters (continued)

(c) Recoverability of deferred tax assets

Risk

At 31 March 2019, the group recognised deferred tax assets of RMB15.8 million which mainly relates to tax losses of the group's subsidiary in PRC. These tax losses are available for 10 years from the year which the losses were originally incurred.

A deferred tax asset is recognised only to the extent that it is probable that sufficient taxable profits will be available in future years, against which the tax losses carried forward can be utilised.

We focused on this area because of the significant management judgements involved in estimating the future profitability of the subsidiary in PRC.

Our response

We assessed the subsidiary's projected cash flow described in our response to impairment of property, plant and equipment and land use rights key audit matter above. The projected cash flow were used to derive the estimated future taxable profits which the tax losses carried forward can be utilised.

We also considered the adequacy of the disclosures in the financial statements in describing the inherent degree of subjectivity and key assumptions in the estimates as disclosed in note 2C and note 9 of the consolidated financial statements.

Other information

Management is responsible for the other information. Other information comprises the information included in the annual report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and directors for the financial statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Act and the SFRS(I)s, and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair financial statements and to maintain accountability of assets.

In preparing the financial statements, management is responsible for assessing the group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the group's financial reporting process.

INDEPENDENT AUDITOR'S REPORT

To the Members of Fabchem China Limited (Registration No: 200413128G)

Auditor's responsibilities for the audit of the financial statements (continued)

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with SSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- a) Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- b) Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's internal control.
- c) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- d) Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the group to cease to continue as a going concern.
- e) Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- f) Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

INDEPENDENT AUDITOR'S REPORT

To the Members of Fabchem China Limited (Registration No: 200413128G)

Auditor's responsibilities for the audit of the financial statements (continued)

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

In our opinion, the accounting and other records required by the Act to be kept by the company have been properly kept in accordance with the provisions of the Act.

The engagement partner on the audit resulting in this independent auditor's report is Goh Swee Hong.

RSM Chio Lim LLP
Public Accountants and
Chartered Accountants
Singapore

27 June 2019

Engagement partner - effective from year ended 31 March 2019.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 March 2019

	Notes	Group	
		2019	2018
		RMB'000	RMB'000
Revenue	5	154,416	191,260
Cost of sales		(125,805)	(155,318)
Gross profit		28,611	35,942
Interest income	6	293	283
Other gains	7	6,040	2,483
Distribution costs		(20,794)	(21,297)
Administrative expenses		(32,150)	(30,701)
Finance costs	6	(5,015)	(3,355)
Other losses	7	(124,225)	(3,345)
Loss before tax from continuing operations		(147,240)	(19,990)
Income tax (expense) / income	9	(3,133)	162
Loss from continuing operations, net of tax		(150,373)	(19,828)
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences gain / (loss) on translating foreign operations, net of tax	20	36	(17)
Other comprehensive income / (loss) for the year, net of tax		36	(17)
Total comprehensive loss for the year		(150,337)	(19,845)
		2019	2018
		RMB	RMB
Loss per share			
Currency unit		Cents	Cents
Basic and diluted	10	(321.31)	(42.37)

The accompanying notes form an integral part of these financial statements.

STATEMENTS OF FINANCIAL POSITION

As at 31 March 2019

	Notes	Group		
		31.03.2019	31.03.2018	01.04.2017
		RMB'000	RMB'000	RMB'000
ASSETS				
Non-current assets				
Property, plant and equipment	12	101,680	228,186	207,940
Other assets	13	62,241	80,251	75,566
Deferred tax assets	9	15,756	18,189	17,327
Total non-current assets		179,677	326,626	300,833
Current assets				
Assets held for sales	15	3,053	–	–
Inventories	16	22,912	32,068	35,353
Trade and other receivables	17	31,018	54,728	61,135
Other assets	13	13,127	9,268	20,365
Cash and cash equivalents	18	83,207	89,018	83,250
Total current assets		153,317	185,082	200,103
Total assets		332,994	511,708	500,936
EQUITY AND LIABILITIES				
Equity				
Share capital	19	116,849	116,849	116,849
(Accumulated losses) / Retained earnings		(13,601)	143,527	163,355
Other reserves	20	88,988	88,952	88,969
Total equity		192,236	349,328	369,173
Non-current liabilities				
Deferred tax liabilities	9	2,175	2,225	2,075
Other payables	21	19,508	18,293	–
Total non-current liabilities		21,683	20,518	2,075
Current liabilities				
Income tax payable		250	–	–
Trade and other payables	21	56,453	77,655	67,489
Other financial liabilities	22	58,000	59,650	59,650
Other liabilities	23	4,372	4,557	2,549
Total current liabilities		119,075	141,862	129,688
Total liabilities		140,758	162,380	131,763
Total equity and liabilities		332,994	511,708	500,936

The accompanying notes form an integral part of these financial statements.

STATEMENTS OF FINANCIAL POSITION

As at 31 March 2019

	Notes	Company		
		31.03.2019	31.03.2018	01.04.2017
		RMB'000	RMB'000	RMB'000
ASSETS				
Non-current assets				
Property, plant and equipment	12	–	76	113
Investment in subsidiaries	14	111,608	107,931	111,150
Total non-current assets		111,608	108,007	111,263
Current assets				
Trade and other receivables	17	4,738	78	30
Other assets	13	199	136	143
Cash and cash equivalents	18	804	358	200
Total current assets		5,741	572	373
Total assets		117,349	108,579	111,636
EQUITY AND LIABILITIES				
Equity				
Share capital	19	116,849	116,849	116,849
Accumulated losses		(1,802)	(6,539)	(7,816)
Foreign currency translation reserves	20	(664)	(4,377)	(1,141)
Total equity		114,383	105,933	107,892
Current liabilities				
Trade and other payables	21	2,966	2,646	3,744
Total current liabilities		2,966	2,646	3,744
Total liabilities		2,966	2,646	3,744
Total equity and liabilities		117,349	108,579	111,636

The accompanying notes form an integral part of these financial statements.

STATEMENTS OF CHANGES IN EQUITY

Year ended 31 March 2019

Group:	Total equity	Share capital	(Accumulated losses) / Retained earnings	Capital reserve	Statutory reserve	Foreign currency translation reserve
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Current year:						
Opening balance at 1 April 2018, as reported	349,328	116,849	143,527	44,000	44,117	835
Effect on adoption of SFRS(I) 9 (Note 30)	(6,755)	–	(6,755)	–	–	–
Adjusted balance at 1 April 2018	342,573	116,849	136,772	44,000	44,117	835
Changes in equity:						
Total comprehensive loss for the year	(150,337)	–	(150,373)	–	–	36
Closing balance at 31 March 2019	192,236	116,849	(13,601)	44,000	44,117	871
Previous year:						
Opening balance at 1 April 2017	369,173	116,849	163,355	44,000	44,117	852
Changes in equity:						
Total comprehensive loss for the year	(19,845)	–	(19,828)	–	–	(17)
Closing balance at 31 March 2018	349,328	116,849	143,527	44,000	44,117	835

Company:	Total equity	Share capital	Accumulated losses	Foreign currency translation reserve
	RMB'000	RMB'000	RMB'000	RMB'000
Current year:				
Opening balance at 1 April 2018	105,933	116,849	(6,539)	(4,377)
Changes in equity:				
Total comprehensive income for the year	8,450	–	4,737	3,713
Closing balance at 31 March 2019	114,383	116,849	(1,802)	(664)
Previous year:				
Opening balance at 1 April 2017	107,892	116,849	(7,816)	(1,141)
Changes in equity:				
Total comprehensive loss for the year	(1,959)	–	1,277	(3,236)
Closing balance at 31 March 2018	105,933	116,849	(6,539)	(4,377)

The accompanying notes form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 March 2019

	2019 RMB'000	2018 RMB'000
Cash flows from operating activities		
Loss before tax from continuing operations	(147,240)	(19,990)
Adjustments for:		
Allowance for impairment on trade and other receivables – loss	4,617	1,692
Allowance for impairment on trade and other receivables – reversal	(1,378)	(330)
Amortisation of land use rights	2,728	2,719
Depreciation of property, plant and equipment	18,801	18,090
Gain on disposal of land use rights	(3,470)	–
Gain on disposal of plant and equipment	(77)	(1,218)
Property, plant and equipment written-off	195	55
Provision for safety expenses	2,471	2,656
Impairment allowance on property, plant and equipment	119,021	–
Inventories written-off	253	58
Inventories written down	139	–
Net effect of exchange rate changes in translation of financial statements of parent company	33	(15)
Interest expense	5,015	3,355
Interest income	(293)	(283)
Operating cash flows before changes in working capital	815	6,789
Inventories	8,764	3,227
Trade and other receivables	13,716	5,045
Other assets	(3,859)	3,693
Trade and other payables	(4,192)	10,166
Other liabilities	(2,656)	(648)
Net cash flows from operations	12,588	28,272
Income taxes paid	(500)	(550)
Net cash flows from operating activities	12,088	27,722
Cash flows from investing activities		
Proceeds from disposal of plant and equipment	151	1,666
Purchase of property, plant and equipment (Note 18A)	(12,893)	(20,548)
Interest received	293	283
Net cash flows used in investing activities	(12,449)	(18,599)
Cash flows from financing activities		
Proceeds from bank borrowings	58,000	59,650
Repayment of bank borrowings	(59,650)	(59,650)
Interest paid	(3,800)	(3,355)
Net cash flows used in financing activities	(5,450)	(3,355)
Net (decrease) / increase in cash and cash equivalents	(5,811)	5,768
Cash and cash equivalents, statement of cash flows, beginning balance	89,018	83,250
Cash and cash equivalents, statement of cash flows, ending balance (Notes 18)	83,207	89,018

The accompanying notes form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2019

1. General

Fabchem China Limited (the “company”) is incorporated in Singapore with limited liability. The financial statements are presented in Chinese Renminbi (“RMB”) and they cover the company (the “company”) and its subsidiaries (the “group”).

The board of directors approved and authorised these financial statements for issue on the date of the statement by directors.

The company is an investment holding company. It is listed on the Singapore Exchange Securities Trading Limited (“SGX-ST”).

The company was placed on the watch-list of the SGX-ST due to the Minimum Trading Price Entry Criteria and Financial Entry Criteria with effect from 5 June 2017 and 5 December 2018 respectively.

The principal activities of the subsidiaries are described in Note 14 below.

The registered office is: 8 Robinson Road #03-00, ASO Building Singapore 048544. The company is situated in Singapore.

Statement of compliance with financial reporting standards

These financial statements have been prepared in accordance with Singapore Financial Reporting Standards (International) (“SFRS(I)s”) and the related Interpretations to SFRS(I)s (“SFRS(I) INT”) as issued by the Singapore Accounting Standards Council. They are also in compliance with the provisions of the Companies Act, Chapter 50 (the “Act”).

Accounting convention

The financial statements are prepared on a going concern basis under the historical cost convention except where a financial reporting standard requires an alternative treatment (such as fair values) as disclosed where appropriate in these financial statements. The accounting policies in the financial reporting standards may not be applied when the effect of applying them is not material. The disclosures required by financial reporting standards may not be provided if the information resulting from that disclosure is not material.

Basis of preparation of financial statements

The preparation of financial statements in conformity with generally accepted accounting principles requires the management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting year. Actual results could differ from those estimates. The estimates and assumptions are reviewed on an ongoing basis. Apart from those involving estimations, management has made judgements in the process of applying the entity’s accounting policies. The areas requiring management’s most difficult, subjective or complex judgements, or areas where assumptions and estimates are significant to the financial statements, are disclosed at the end of this footnote, where applicable.

Basis of presentation

The consolidated financial statements include the financial statements made up to the end of the reporting year of the company and all of its subsidiaries. The consolidated financial statements are the financial statements of the group presented as those of a single economic entity and are prepared using uniform accounting policies for like transactions and other events in similar circumstances. All significant intragroup balances and transactions are eliminated on consolidation. Subsidiaries are consolidated from the date the reporting entity obtains control of the investee and cease when the reporting entity loses control of the investee.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2019

1. General (continued)

Basis of presentation (continued)

Changes in the group's ownership interest in a subsidiary that do not result in the loss of control are accounted for within equity as transactions with owners in their capacity as owners. The carrying amounts of the group's and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. When the group loses control of a subsidiary it derecognises the assets and liabilities and related equity components of the former subsidiary. Any gain or loss is recognised in profit or loss. Any investment retained in the former subsidiary is measured at fair value at the date when control is lost and is subsequently accounted as fair value through profit or loss financial assets in accordance with SFRS(I) 9.

The company's separate financial statements have been prepared on the same basis, and as permitted by the Act, the company's separate statement of profit or loss and other comprehensive income is not presented.

2. Significant accounting policies and other explanatory information

2A. Significant accounting policies

Revenue recognition

The financial reporting standard on revenue from contracts with customers establishes a five-step model to account for revenue arising from contracts with customers. Revenue is recognised at an amount that reflects the consideration to which the entity expects to be entitled in exchange for transferring goods or services to a customer (which excludes estimates of variable consideration that are subject to constraints, such as right of return exists, trade discounts, volume rebates and changes to the transaction price arising from modifications), net of any related sales taxes and excluding any amounts collected on behalf of third parties. An asset (goods or services) is transferred when or as the customer obtains control of that asset. As a practical expedient the effects of any significant financing component is not adjusted if the payment for the good or service will be within one year.

Sale of goods

Revenue is recognised at a point in time when the performance obligation is satisfied by transferring a promised good or service to the customer. Control of the goods is transferred to the customer generally on delivery of the goods (in this respect, incoterms are considered).

Interest income

Interest income is recognised using the effective interest method.

Dividend income

Dividend from equity instruments is recognised in profit or loss only when the entity's right to receive payment of the dividend is established; it is probable that the economic benefits associated with the dividend will flow to the entity; and the amount of the dividend can be measured reliably.

Government grants

Government grants are recognised at fair value when there is reasonable assurance that the conditions attaching to them will be complied with and that the grants will be received. Grants in recognition of specific expenses are recognised in profit or loss on a systematic basis over the periods necessary to match them with the related costs that they are intended to compensate. The grant related to assets is presented in the statement of financial position by recognising the grant as deferred income that is recognised in profit or loss on a systematic basis over the useful life of the asset and in the proportions in which depreciation expense on those assets is recognised.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2019

2. Significant accounting policies and other explanatory information (continued)

2A. Significant accounting policies (continued)

Employee benefits

Contributions to a defined contribution retirement benefit plan are recorded as an expense as they fall due. The entity's legal or constructive obligation is limited to the amount that it is obligated to contribute to an independently administered fund (such as the Central Provident Fund in Singapore, a government managed defined contribution retirement benefit plan). For employee leave entitlement the expected cost of short-term employee benefits in the form of compensated absences is recognised in the case of accumulating compensated absences, when the employees render service that increases their entitlement to future compensated absences; and in the case of non-accumulating compensated absences, when the absences occur. A liability for bonuses is recognised where the entity is contractually obliged or where there is constructive obligation based on past practice.

Pursuant to the relevant regulations of the People's Republic of China ("PRC") government, the subsidiaries in the PRC have each participated in a local municipal government retirement benefits scheme (the "Scheme"), whereby the subsidiaries in the PRC are required to contribute to a certain percentage to the basic salaries of its employees to the Scheme to fund their retirement benefits. The local municipal government undertakes to assume the retirement benefits obligations of those employees of the group.

Borrowing costs

Borrowing costs are interest and other costs incurred in connection with the borrowing of funds. Interest expense is calculated using the effective interest rate method. Borrowing costs are recognised as an expense in the period in which they are incurred except that borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset that necessarily take a substantial period of time to get ready for their intended use or sale are capitalised as part of the cost of that asset until substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

Foreign currency transactions

The functional currency of the company is the Singapore dollar ("S\$") as it reflects the primary economic environment in which the entity operates. Transactions in foreign currencies are recorded in the functional currency at the rates ruling at the dates of the transactions. At each end of the reporting year, recorded monetary balances and balances measured at fair value that are denominated in non-functional currencies are reported at the rates ruling at the end of the reporting year and fair value measurement dates respectively. All realised and unrealised exchange adjustment gains and losses are dealt with in profit or loss except when recognised in other comprehensive income and if applicable deferred in equity such as qualifying cash flow hedges. The presentation currency is the Chinese Renminbi ("RMB"). For the RMB financial statements assets and liabilities are translated at year end rates of exchange and the income and expense items are translated at average rates of exchange for the reporting year. The resulting translation adjustments (if any) are recognised in other comprehensive income and accumulated in a separate component of equity. The translations of S\$ amounts into RMB amounts are included solely for the convenience of readers. The reporting year end rates used are RMB4.9511 to S\$1.00 (2018: RMB4.7880 to S\$1.00) which approximate the rate of exchange at the end of the reporting year. The average rates of exchange for the reporting year were RMB4.9561 to S\$1.00 (2018: RMB4.8767 to S\$1.00). Such translation should not be construed as a representation that the RMB amounts could be converted into S\$ at the above rate or other rate.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2019

2. Significant accounting policies and other explanatory information (continued)

2A. Significant accounting policies (continued)

Translation of financial statements of other entities

Each entity in the group determines the appropriate functional currency as it reflects the primary economic environment in which the relevant reporting entity operates. In translating the financial statements of such an entity for incorporation in the consolidated financial statements in the presentation currency the assets and liabilities denominated in other currencies are translated at end of the reporting year rates of exchange and the income and expense items for each statement presenting profit or loss and other comprehensive income are translated at average rates of exchange for the reporting year. The resulting translation adjustments (if any) are recognised in other comprehensive income and accumulated in a separate component of equity until the disposal of that relevant reporting entity.

Income tax

The income taxes are accounted using the asset and liability method that requires the recognition of taxes payable or refundable for the current year and deferred tax liabilities and assets for the future tax consequence of events that have been recognised in the financial statements or tax returns. The measurements of current and deferred tax liabilities and assets are based on provisions of the enacted or substantially enacted tax laws; the effects of future changes in tax laws or rates are not anticipated. Tax expense (tax income) is the aggregate amount included in the determination of profit or loss for the reporting year in respect of current tax and deferred tax. Current and deferred income taxes are recognised as income or as an expense in profit or loss unless the tax relates to items that are recognised in the same or a different period outside profit or loss. For such items recognised outside profit or loss the current tax and deferred tax are recognised (a) in other comprehensive income if the tax is related to an item recognised in other comprehensive income and (b) directly in equity if the tax is related to an item recognised directly in equity. Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same income tax authority. The carrying amount of deferred tax assets is reviewed at each end of the reporting year and is reduced, if necessary, by the amount of any tax benefits that, based on available evidence, are not expected to be realised. A deferred tax amount is recognised for all temporary differences, unless the deferred tax amount arises from the initial recognition of an asset or liability in a transaction which (i) is not a business combination; and (ii) at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss). A deferred tax liability or asset is recognised for all temporary differences associated with investments in subsidiaries except where the reporting entity is able to control the timing of the reversal of the taxable temporary difference and it is probable that the taxable temporary difference will not reverse in the foreseeable future or for deductible temporary differences, they will not reverse in the foreseeable future and they cannot be utilised against taxable profits.

Property, plant and equipment

Property, plant and equipment are carried at cost on initial recognition and after initial recognition at cost less any accumulated depreciation and accumulated impairment losses, if any. Depreciation is provided on a straight-line method to allocate the gross carrying amounts of the assets less their residual values over their estimated useful lives of each part of an item of these assets. The annual rates of depreciation are as follows:

Leasehold properties	–	3.3% to 5%
Plant and equipment	–	5% to 33.3%

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2019

2. Significant accounting policies and other explanatory information (continued)

2A. Significant accounting policies (continued)

Property, plant and equipment (continued)

Construction-in-progress represents buildings under construction and plant and equipment pending installation. These assets will reclassify to the respective categories of property, plant and equipment upon completion. Depreciation only begin when the relevant assets are available for use.

An asset is depreciated when it is available for use until it is derecognised even if during that period the item is idle. Fully depreciated assets still in use are retained in the financial statements.

The gain or loss arising from the derecognition of an item of property, plant and equipment is recognised in profit or loss. The residual value and the useful life of an asset is reviewed at least at each end of the reporting year and, if expectations differ significantly from previous estimates, the changes are accounted for as a change in an accounting estimate, and the depreciation charge for the current and future periods are adjusted.

Cost also includes acquisition cost, borrowing cost capitalised and any cost directly attributable to bringing the asset or component to the location and condition necessary for it to be capable of operating in the manner intended by management. Subsequent costs are recognised as an asset only when it is probable that future economic benefits associated with the item will flow to the entity and the cost of the item can be measured reliably. All other repairs and maintenance are charged to profit or loss when they are incurred.

Leases

Leases are classified as finance leases if substantially all the risks and rewards of ownership are transferred to the lessee. All other leases are classified as operating leases. At the commencement of the lease term, a finance lease is recognised as an asset and as a liability in the statement of financial position at amounts equal to the fair value of the leased asset or, if lower, the present value of the minimum lease payments, each measured at the inception of the lease. The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease, if this is practicable to determine, the lessee's incremental borrowing rate is used. Any initial direct costs of the lessee are added to the amount recognised as an asset. The excess of the lease payments over the recorded lease liability are treated as finance charges which are allocated to each reporting year during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent rents are charged as expenses in the reporting years in which they are incurred. The assets are depreciated as owned depreciable assets. Leases where the lessor effectively retains substantially all the risks and benefits of ownership of the leased assets are classified as operating leases. For operating leases, lease payments are recognised as an expense in profit or loss on a straight-line basis over the term of the relevant lease unless another systematic basis is representative of the time pattern of the user's benefit, even if the payments are not on that basis. Lease incentives received are recognised in profit or loss as an integral part of the total lease expense.

Land use rights

Land use rights are initially measured at cost. Following initial recognition, land use rights are measured at cost less accumulated amortisation and accumulated impairment losses. The land use rights are amortised over the remaining lease terms. The annual rate of amortisation is as follows:

Land use rights – 2% to 5%

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2019

2. Significant accounting policies and other explanatory information (continued)

2A. Significant accounting policies (continued)

Subsidiaries

A subsidiary is an entity including unincorporated and special purpose entity that is controlled by the reporting entity and the reporting entity is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The existence and effect of substantive potential voting rights that the reporting entity has the practical ability to exercise (that is, substantive rights) are considered when assessing whether the reporting entity controls another entity.

In the reporting entity's separate financial statements, an investment in a subsidiary is accounted for at cost less any allowance for impairment in value. Impairment loss recognised in profit or loss for a subsidiary is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying value and the net book value of the investment in a subsidiary are not necessarily indicative of the amount that would be realised in a current market exchange.

Business combinations

A business combination is a transaction or other event which requires that the assets acquired and liabilities assumed constitute a business. It is accounted for by applying the acquisition method of accounting. The cost of a business combination includes the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the acquirer, in exchange for control of the acquiree. The acquisition-related costs are expensed in the periods in which the costs are incurred and the services are received except for any costs to issue debt or equity securities are recognised in accordance with the financial reporting standard on financial instruments. As of the acquisition date, the acquirer recognises, separately from goodwill, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree measured at acquisition-date fair values as defined in and that meet the conditions for recognition under the financial reporting standard on business combinations. If there is gain on bargain purchase, for the gain on bargain purchase a reassessment is made of the identification and measurement of the acquiree's identifiable assets, liabilities and contingent liabilities and the measurement of the cost of the business combination and any excess remaining after this reassessment is recognised immediately in profit or loss.

Goodwill and fair value adjustments resulting from the application of purchase accounting at the date of acquisition are treated as assets and liabilities of the foreign entity and are recorded at the exchange rates prevailing at the acquisition date and are subsequently translated at the period end exchange rate.

Inventories

Inventories are measured at the lower of cost (weighted average method) and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. A write down on cost is made where the cost is not recoverable or if the selling prices have declined. Cost includes all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2019

2. Significant accounting policies and other explanatory information (continued)

2A. Significant accounting policies (continued)

Impairment of non-financial assets

Irrespective of whether there is any indication of impairment, an annual impairment test is performed at about the same time every year on an intangible asset with an indefinite useful life or an intangible asset not yet available for use. The carrying amount of other non-financial assets is reviewed at each end of the reporting year for indications of impairment and where an asset is impaired, it is written down through profit or loss to its estimated recoverable amount. The impairment loss is the excess of the carrying amount over the recoverable amount and is recognised in profit or loss. The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs of disposal and its value in use. When the fair value less costs of disposal method is used, any available recent market transactions are taken into consideration. When the value in use method is adopted, in assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). At each end of the reporting year non-financial assets other than goodwill with impairment loss recognised in prior periods are assessed for possible reversal of the impairment. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been measured, net of depreciation or amortisation, if no impairment loss had been recognised.

Financial instruments

Recognition and derecognition of financial instruments

A financial asset or a financial liability is recognised in the statement of financial position when, and only when, the entity becomes party to the contractual provisions of the instrument. All other financial instruments (including regular-way purchases and sales of financial assets) are recognised and derecognised, as applicable, using trade date accounting or settlement date accounting. A financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the entity neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset. A financial liability is removed from the statement of financial position when, and only when, it is extinguished, that is, when the obligation specified in the contract is discharged or cancelled or expires. At initial recognition the financial asset or financial liability is measured at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

Classification and measurement of financial assets

- (i) Financial asset classified as measured at amortised cost: A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at fair value through profit or loss (FVTPL), that is (a) the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and (b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Typically trade and other receivables, bank and cash balances are classified in this category.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2019

2. Significant accounting policies and other explanatory information (continued)

2A. Significant accounting policies (continued)

Financial instruments (continued)

Classification and measurement of financial assets (continued)

- (ii) Financial asset that is a debt asset instrument classified as measured at fair value through other comprehensive income ("FVTOCI"): There were no financial assets classified in this category at reporting year end date.
- (iii) Financial asset that is an equity investment measured at fair value through other comprehensive income (FVTOCI): There were no financial assets classified in this category at reporting year end date.
- (iv) Financial asset classified as measured at fair value through profit or loss (FVTPL): There were no financial assets classified in this category at reporting year end date.

Classification and measurement of financial liabilities

Financial liabilities are classified as at fair value through profit or loss (FVTPL) in either of the following circumstances: (1) the liabilities are managed, evaluated and reported internally on a fair value basis; or (2) the designation eliminates or significantly reduces an accounting mismatch that would otherwise arise. All other financial liabilities are carried at amortised cost using the effective interest method. Reclassification of any financial liability is not permitted.

Cash and cash equivalents

Cash and cash equivalents include bank and cash balances, on demand deposits and any highly liquid debt instruments purchased with an original maturity of three months or less. For the statement of cash flows the item includes cash and cash equivalents less cash subject to restriction and bank overdrafts payable on demand that form an integral part of cash management.

Fair value measurement

The fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When measuring the fair value of an asset or a liability, market observable data to the extent possible is used. If the fair value of an asset or a liability is not directly observable, an estimate is made using valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs (eg by use of the market comparable approach that reflects recent transaction prices for similar items, discounted cash flow analysis, or option pricing models refined to reflect the issuer's specific circumstances). Inputs used are consistent with the characteristics of the asset / liability that market participants would take into account. The entity's intention to hold an asset or to settle or otherwise fulfil a liability is not taken into account as relevant when measuring fair value.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2019

2. Significant accounting policies and other explanatory information (continued)

2A. Significant accounting policies (continued)

Fair value measurement (continued)

Fair values are categorised into different levels in a fair value hierarchy based on the degree to which the inputs to the measurement are observable and the significance of the inputs to the fair value measurement in its entirety: Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (ie as prices) or indirectly (ie derived from prices). Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs). Transfers between levels of the fair value hierarchy are recognised at the end of the reporting period during which the change occurred.

The carrying values of current financial instruments approximate their fair values due to the short-term maturity of these instruments and the disclosures of fair value are not made when the carrying amount of current financial instruments is a reasonable approximation of the fair value. The fair values of non-current financial instruments may not be disclosed separately unless there are significant differences at the end of the reporting year and in the event the fair values are disclosed in the relevant notes to the financial statements.

2B. Other explanatory information

Provisions

A liability or provision is recognised when there is a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. A provision is made using best estimates of the amount required in settlement and where the effect of the time value of money is material, the amount recognised is the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense. Changes in estimates are reflected in profit or loss in the reporting year they occur.

Segment reporting

The group discloses financial and descriptive information about its consolidated reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Generally, financial information is reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2019

2. Significant accounting policies and other explanatory information (continued)

2B. Other explanatory information (continued)

Assets classified as held for sale

Identifiable assets and liabilities and any disposal groups are classified as held for sale if their carrying amount is to be recovered principally through a sale transaction rather than through continuing use. The sale is expected to qualify for recognition as a completed sale within one year from the date of classification, except as permitted by the financial reporting standard on non-current assets held for sale and discontinued operations in certain circumstances. Assets that meet the criteria to be classified as held for sale are measured at the lower of carrying amount and fair value less costs of disposal and are presented separately on the face of the statement of financial position. Once an asset is classified as held for sale or included in a group of assets held for sale no further depreciation or amortisation is recorded. Impairment losses on initial classification of the balances as held for sale are included in profit or loss, even when there is a revaluation. The same applies to gains and losses on subsequent remeasurement.

2C. Critical judgements, assumptions and estimation uncertainties

The critical judgements made in the process of applying the accounting policies that have the most significant effect on the amounts recognised in the financial statements and the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting year, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities currently or within the next reporting year are discussed below. These estimates and assumptions are periodically monitored to ensure they incorporate all relevant information available at the date when financial statements are prepared. However, this does not prevent actual figures differing from estimates.

Impairment assessment of property, plant and equipment and land use rights:

An assessment is made for the reporting year whether there is any indication that the asset may be impaired. If any such indication exists, an estimate is made of the recoverable amount of the asset. The recoverable amounts of cash-generating units is measured based on value in use calculations. These calculations require the use of estimates. It is impracticable to disclose the extent of the possible effects. It is reasonably possible, based on existing knowledge, that outcomes within the next reporting year that are different from assumptions as disclosed in Note 12 and Note 13 could require a material adjustment to the carrying amount of the balances affected. The carrying amount of the property, plant and equipment and land use rights at the end of the reporting year affected by the assumption are RMB102 million (2018: RMB228 million) and RMB62 million (2018: RMB80 million) respectively.

Impairment assessment of trade receivables:

Trade receivables are subject to the expected credit loss (“ECL”) model under the financial reporting standard on financial instruments. 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 ECL. 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. At every reporting date the historical observed default rates are updated and changes in the forward-looking estimates are analysed. The loss allowance was determined accordingly. The carrying amounts might change materially within the next reporting year but these changes may not arise from assumptions or other sources of estimation uncertainty at the end of the reporting year. The carrying amount is disclosed in Note 17 to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2019

2. Significant accounting policies and other explanatory information (continued)

2C. Critical judgements, assumptions and estimation uncertainties (continued)

Recoverability of deferred tax asset:

Management judgement is required in determining the amount of current and deferred tax recognised as income or expense and the extent to which deferred tax assets can be recognised. A deferred tax asset is recognised if it is more likely than not that sufficient taxable income will be available in the future against which the temporary differences and unused tax losses can be utilised. Management also considers future taxable income and tax planning strategies in assessing whether deferred tax assets should be recognised in order to reflect changed circumstances as well as tax regulations. As a result, due to their inherent nature, it is likely that deferred tax calculation relates to complex fact patterns for which assessments of likelihood are judgmental and not susceptible to precise determination. The related amounts are disclosed in Note 9.

Useful lives of plant and equipment:

The estimates for the useful lives and related depreciation charges for plant and equipment is based on commercial and other factors which could change significantly as a result of innovations and competitor actions in response to market conditions. The depreciation charge is increased where useful lives are less than previously estimated lives, or the carrying amounts written off or written down for technically obsolete items or assets that have been abandoned. It is impracticable to disclose the extent of the possible effects. It is reasonably possible, based on existing knowledge, that outcomes within the next reporting year that are different from assumptions could require a material adjustment to the carrying amount of the balances affected. The carrying amount of the specific asset (or class of assets) at the end of the reporting year affected by the assumption is RMB41 million (2018: RMB86 million).

3. Related party relationships and transactions

The financial reporting standard on related party disclosures requires the reporting entity to disclose: (a) transactions with its related parties; and (b) relationships between parents and subsidiaries irrespective of whether there have been transactions between those related parties. A party is related to a party if the party controls, or is controlled by, or can significantly influence or is significantly influenced by the other party.

3A. Related party transactions

There are transactions and arrangements between the reporting entity and related parties and the effects of these on the basis determined between the parties are reflected in these financial statements. The related party balances and transfer of resources, services or obligations if any are unsecured, without fixed repayment terms and interest or charge unless stated otherwise.

Intragroup transactions and balances that have been eliminated in these consolidated financial statements are not disclosed as related party transactions and balances below.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2019

3. Related party relationships and transactions (continued)

3A. Related party transactions (continued)

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	
	2019	2018
	RMB'000	RMB'000
Sales of goods	(26,399)	(22,716)
Purchase of goods	–	26
Purchase of equipment	–	596
Purchase of leasehold properties	–	28,153
Security services	6,200	6,500
Estate management fees	88	–

Other related parties refer to companies in which a director or his immediate family has significant or controlling interest over the entity.

3B. Key management compensation

	Group	
	2019	2018
	RMB'000	RMB'000
Salaries and other short-term employee benefits	4,754	5,136

The above amounts are included under employee benefits expense. Included in the above amounts are following items:

	Group	
	2019	2018
	RMB'000	RMB'000
Consulting fees to director of the company	120	–
Remuneration of directors of the company	1,188	1,405
Fees to directors of the company	839	1,169

Further information about the remuneration of individual directors is provided in the report on corporate governance.

Key management personnel include directors and those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly. The above amounts for key management compensation are for all the directors and other key management personnel.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2019

3. Related party relationships and transactions (continued)

3C. Other receivable from and other payables to related parties

The trade transactions and the related receivables and payables balances arising from sales and purchases of goods and services are disclosed elsewhere in the notes to the financial statements.

The movements in other receivables from and other payables to related parties are as follows:

Group	Other related parties	
	2019	2018
	RMB'000	RMB'000
<u>Other payables:</u>		
Balance at beginning of the year	(18,850)	(935)
Amounts paid out and settlement of liabilities on behalf of related parties	–	378
Purchase of leasehold properties	–	(28,153)
Cash disbursed for purchase of leasehold properties	–	9,860
Amortisation of discounts relating to related party's loan	(1,215)	–
Balance at end of the year (Note 21)	<u>(20,065)</u>	<u>(18,850)</u>

Other related parties refer to companies in which a director or his immediate family has significant or controlling interest over the entity.

Company	Subsidiaries	
	2019	2018
	RMB'000	RMB'000
<u>Other receivables:</u>		
Balance at beginning of the year	78	30
Declaration of dividends	15,000	11,000
Dividend received	(10,340)	(10,952)
Balance at end of the year (Note 17)	<u>4,738</u>	<u>78</u>

4. Financial information by operating segments

4A. Information about reportable segment profit or loss, assets and liabilities

Disclosure of information about operating segments, products and services, the geographical areas, and the major customers are made as required by SFRS(I) 8 Operating Segments. This disclosure standard has no impact on the reported results or financial position of the reporting entity.

For management purposes the reporting entity is organised into three major operating segments: (i) explosives devices, (ii) industrial fuse and initiating explosives devices and (iii) industrial detonators. Such a structural organisation is determined by the nature of risks and returns associated with each business segment and it defines the management structure as well as the internal reporting system. It represents the basis on which the management reports the primary segment information that is available and that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing the performance. They are managed separately because each business requires different strategies.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2019

4. Financial information by operating segments (continued)

4A. Information about reportable segment profit or loss, assets and liabilities (continued)

The segments and the types of products and services are as follows:

- (i) The explosives devices segment is a manufacturer of boosters that are used to enhance the power of the explosions and for oil and gas explorations.
- (ii) The industrial fuse and initiating explosives devices segment is a manufacturer of detonating cords and non-electric tubes.
- (iii) The industrial detonators segment is a manufacturer of non-electric detonators which are used in methane-free and mine-dust-free explosion projects, detonation projects in the mining industry, the excavation of alleys and tunnels, controlled explosions and underwater demolitions.

Inter-segment sales are measured on the basis that the entity actually used to price the transfers. Internal transfer pricing policies of the group are as far as practicable based on market prices. The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies.

The management reporting system evaluates performances based on a number of factors. However the primary profitability measurement to evaluate segment's operating results comprises two major financial indicators: (1) earnings from operations before depreciation, amortisation, interests and income taxes (called "Recurring EBITDA") and (2) operating result before interests and income taxes and other unallocated items (called "ORBIT").

The following tables illustrate the information about the reportable segment profit or loss, assets and liabilities.

4B. Profit or loss from continuing operations and reconciliations

	Explosives devices	Industrial fuse and initiating devices	Industrial detonators	Unallocated	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<u>2019</u>					
Revenue by Segment					
Total revenue	70,755	29,629	53,737	295	154,416
Recurring EBITDA	19,845	8,801	8,212	210	37,068
Depreciation	(3,066)	(5,065)	(8,054)	(2,616)	(18,801)
Amortisation	–	–	–	(2,728)	(2,728)
Impairment allowance on property, plant and equipment	–	(57,446)	(55,615)	(5,960)	(119,021)
ORBIT	16,779	(53,710)	(55,457)	(11,094)	(103,482)
Interest income				293	293
Finance costs				(5,015)	(5,015)
Unallocated corporate expenses				(39,036)	(39,036)
Loss before tax					(147,240)
Income tax expense					(3,133)
Loss from continuing operations					(150,373)

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2019

4. Financial information by operating segments (continued)

4B. Profit or loss from continuing operations and reconciliations (continued)

	Explosives devices	Industrial fuse and initiating devices	Industrial detonators	Unallocated	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<u>2018</u>					
Revenue by Segment	78,971	53,242	58,917	130	191,260
Total revenue	78,971	53,242	58,917	130	191,260
Recurring EBITDA	17,135	13,885	12,419	93	43,532
Depreciation	(2,989)	(5,059)	(7,966)	(2,076)	(18,090)
Amortisation	(382)	–	(233)	(2,104)	(2,719)
ORBIT	13,764	8,826	4,220	(4,087)	22,723
Interest income				283	283
Finance costs				(3,355)	(3,355)
Unallocated corporate expenses				(39,641)	(39,641)
Loss before tax					(19,990)
Income tax income					162
Loss from continuing operations					(19,828)

4C. Assets and reconciliations

	Explosives devices	Industrial fuse and initiating devices	Industrial detonators	Unallocated	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<u>2019</u>					
Total assets for reportable segments	71,621	1,597	5,395	–	78,613
Unallocated:					
Property, plant and equipment				32,679	32,679
Other assets, non-current				62,241	62,241
Deferred tax assets				15,756	15,756
Assets held for sales				3,053	3,053
Inventories				13,300	13,300
Trade and other receivables				31,018	31,018
Other assets, current				13,127	13,127
Cash and cash equivalents				83,207	83,207
Total group assets	71,621	1,597	5,395	254,381	332,994

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2019

4. Financial information by operating segments (continued)

4C. Assets and reconciliations (continued)

	Explosives devices	Industrial fuse and initiating devices	Industrial detonators	Unallocated	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<u>2018</u>					
Total assets for reportable segments	56,934	61,347	70,861	–	189,142
Unallocated:					
Property, plant and equipment				89,388	89,388
Other assets, non-current				46,474	46,474
Deferred tax assets				18,189	18,189
Inventories				15,501	15,501
Trade and other receivables				54,728	54,728
Other assets, current				9,268	9,268
Cash and cash equivalents				89,018	89,018
Total group assets	56,934	61,347	70,861	322,566	511,708

4D. Liabilities and reconciliations

	Explosives devices	Industrial fuse and initiating devices	Industrial detonators	Unallocated	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<u>2019</u>					
Total liabilities for reportable segments	1,864	2,114	4,197	–	8,175
Unallocated:					
Deferred tax liabilities				2,175	2,175
Income tax payable				250	250
Trade and other payables				67,786	67,786
Other liabilities				4,372	4,372
Other financial liabilities				58,000	58,000
Total group liabilities	1,864	2,114	4,197	132,583	140,758
<u>2018</u>					
Total liabilities for reportable segments	2,335	2,127	5,440	–	9,902
Unallocated:					
Deferred tax liabilities				2,225	2,225
Trade and other payables				86,046	86,046
Other liabilities				4,557	4,557
Other financial liabilities				59,650	59,650
Total group liabilities	2,335	2,127	5,440	152,478	162,380

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2019

4. Financial information by operating segments (continued)

4E. Other material items and reconciliations

	Explosives devices	Industrial fuse and initiating devices	Industrial detonators	Unallocated	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Other non-cash expenses other than depreciation / amortisation:					
2019	–	(57,585)	(55,615)	(6,100)	(119,300)
2018	–	–	–	257	257
Expenditures for non-current assets:					
2019	11,806	–	163	924	12,893
2018	409	–	1,080	44,756	46,245

4F. Geographical information

The following table provides an analysis of the group revenue by geographical market irrespective of the origin of the goods and services and non-current assets by geographical market:-

	Group	
	2019	2018
	RMB'000	RMB'000
Revenue		
Within PRC	90,943	124,806
Outside PRC:		
Sales through export distributors	19,195	9,383
Australia	43,967	57,071
Others (*)	311	–
Subtotal	63,473	66,454
	154,416	191,260
Non-current assets		
Within PRC	163,921	308,361
Singapore	–	76
	163,921	308,437

(*) Others include Kyrgyzstan, Mongolia, Indonesia

Revenues are attributed to countries on the basis of the customer's location. The non-current assets are analysed by the geographical area in which the assets are located. The non-current assets exclude any financial instruments and deferred tax assets.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2019

4. Financial information by operating segments (continued)

4G. Information about major customers

	Group	
	2019	2018
	RMB'000	RMB'000
<u>Explosives devices segment</u>		
Top 1 customer	27,863	41,225
Top 2 customers	50,178	–

There are no customers with revenue transactions of over 10% of the group revenue in industrial fuse and initiating devices and industrial detonators segments.

5. Revenue

	Group	
	2019	2018
	RMB'000	RMB'000
Sales of goods	154,416	191,260

Revenue from sales of goods is recognised at point in time. All contracts are less than 12 months. The customers mainly engaged in mining, energy exploration, hydroelectric and infrastructure construction industries in the People's Republic of China ("PRC") and internationally.

This is consistent with the revenue information that is disclosed for each reporting segment in Note 4.

6. Interest income and (finance costs)

	Group	
	2019	2018
	RMB'000	RMB'000
Interest income from banks	293	283
Loan interest	(3,800)	(3,355)
Amortisation of discounts relating to related party's loan (Note 21A)	(1,215)	–
	(4,722)	(3,072)
Presented in profit or loss as:		
Interest income	293	283
Finance costs	(5,015)	(3,355)
	(4,722)	(3,072)

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2019

7. Other gains and (other losses)

	Group	
	2019	2018
	RMB'000	RMB'000
Allowance for impairment on trade and other receivables – loss	(4,617)	(1,692)
Allowance for impairment on trade and other receivables – reversal	1,378	330
Foreign exchange gain/(loss)	448	(1,540)
Gain on disposal of property, plant and equipment	77	1,218
Gain on disposal of land use rights	3,470	–
Government grant	667	935
Impairment allowance on property, plant and equipment	(119,021)	–
Inventories written-off	(253)	(58)
Inventories written down	(139)	–
Property, plant and equipment written-off	(195)	(55)
	<u>(118,185)</u>	<u>(862)</u>
Presented in profit or loss as:		
Other gains	6,040	2,483
Other losses	(124,225)	(3,345)
	<u>(118,185)</u>	<u>(862)</u>

8. Employee benefits expense

	Group	
	2019	2018
	RMB'000	RMB'000
Employee benefits expense	32,345	39,374
Contributions to defined contribution plans	9,744	12,436
Total employee benefits expense	<u>42,089</u>	<u>51,810</u>

The employee benefit expense is charged as follows:

	Group	
	2019	2018
	RMB'000	RMB'000
Cost of sales	29,066	36,067
Distribution costs	3,172	3,528
Administrative expenses	9,851	12,215
	<u>42,089</u>	<u>51,810</u>

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2019

9. Income tax

9A. Components of income tax recognised in profit or loss

	Group	
	2019	2018
	RMB'000	RMB'000
<u>Current tax:</u>		
Current tax expense	750	550
Subtotal	750	550
<u>Deferred tax:</u>		
Deferred tax expense / (income)	3,791	(1,554)
(Over) / Under adjustments in respect of prior years	(1,408)	842
Subtotal	2,383	(712)
Total income tax expense / (income)	3,133	(162)

The income tax in profit or loss varied from the amount of income tax amount determined by applying the Singapore income tax rate of 17.0% (2018: 17.0%) to loss before tax as a result of the following differences:

	Group	
	2019	2018
	RMB'000	RMB'000
Loss before tax from continuing operations	(147,240)	(19,990)
Income tax at the above rate	(25,031)	(3,398)
Expenses not deductible for tax purposes	40,590	3,259
Under adjustments of deferred tax in respect of prior years	(1,408)	842
Effect of different tax rate in foreign countries	(11,018)	(865)
	3,133	(162)

The prevailing statutory income tax rate in the People's Republic of China ("PRC") is 25%.

There are no income tax consequences of dividends to owners of the company.

9B. Deferred tax expense / (income) recognised in profit or loss

	Group	
	2019	2018
	RMB'000	RMB'000
Allowance for impairment of trade and other receivables	1,034	(337)
Allowance for impairment of inventories	(35)	–
Impairment allowance on property, plant and equipment	(28,411)	–
Accrual for safety expenses	178	(134)
Deferred tax relating to tax loss carryforwards	(6,361)	(391)
Unrecognised deferred tax assets	36,028	–
Deferred tax relating to unremitted profits of a subsidiary	(50)	150
	2,383	(712)

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2019

9. Income tax (continued)

9C. Deferred tax balance in the statement of financial position

	Group		
	31.03.2019	31.03.2018	01.04.2017
	RMB'000	RMB'000	RMB'000
<u>Deferred tax assets:</u>			
Allowance for impairment of trade and other receivables	4,385	5,419	5,082
Allowance for impairment of inventories	35	–	–
Impairment allowance on property, plant and equipment	29,755	1,344	1,344
Accrual for safety expenses	51	229	95
Tax loss carryforwards	17,558	11,197	10,806
Less: Unrecognised deferred tax assets	(36,028)	–	–
	15,756	18,189	17,327
<u>Deferred tax liabilities:</u>			
Deferred tax relating to unremitted profits of a subsidiary	(2,175)	(2,225)	(2,075)
	(2,175)	(2,225)	(2,075)

For the Singapore companies, the realisation of the future income tax benefits from tax loss carryforwards and temporary differences from capital allowances is available for an unlimited future period subject to the conditions imposed by law including the retention of majority shareholders as defined.

For the PRC companies that was categorised as high-tech enterprises, the realisation of the future income tax benefits from tax loss carryforwards is available for a period of 10 years, subject to the conditions imposed by law. Prior to 1 January 2018, the tax loss carryforwards is only available for a period of 5 years.

For the China companies, the expiry dates of tax losses carryforwards are as follows:

	Group	
	2019	2018
	RMB'000	RMB'000
2026	2,944	2,944
2027	36,914	36,914
2028	10,567	4,934
2029	19,807	–
	70,232	44,792

At the end of the reporting year, the aggregate amount of temporary differences associated with investments in subsidiaries for which deferred tax liabilities have not been recognised are as follows:

	Group	
	2019	2018
	RMB'000	RMB'000
Subsidiaries	3,680	5,390

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2019

10. Loss per share

The following table illustrates the numerators and denominators used to calculate basic and diluted loss per share of no par value:

	Group	
	2019	2018
A. Numerators: loss attributable to equity:		
Continuing operations: Loss attributable to equity holders (RMB'000)	<u>(150,373)</u>	<u>(19,828)</u>
B. Denominators: weighted average number of equity shares:		
Basic and diluted ('000)	<u>46,800</u>	<u>46,800</u>

The weighted average number of ordinary shares refers to shares in issue outstanding during the reporting year.

The basic amount per share ratio is based on the weighted average number of ordinary shares outstanding during each reporting year.

There is no dilution of loss per share as there are no shares under options. The denominators used are the same as those detailed above for both basic and diluted earnings per share.

11. Items in the profit or loss

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

	Group	
	2019	2018
	RMB'000	RMB'000
Audit fee to auditors of the company	406	366
Audit fee to other auditors	120	120
Non-audit fees paid to the auditors of the company	<u>492</u>	<u>110</u>

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2019

12. Property, plant and equipment

Group	Leasehold properties	Plant and equipment	Construction-in-progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000
<u>Cost:</u>				
At 1 April 2017	122,351	186,182	20,768	329,301
Additions	28,153	1,727	8,961	38,841
Disposals	–	(3,463)	–	(3,463)
Assets written-off	–	(283)	–	(283)
Foreign exchange adjustments	–	(26)	–	(26)
At 31 March 2018	150,504	184,137	29,729	364,370
Additions	–	1,696	11,197	12,893
Reclassifications	3,409	12,901	(16,310)	–
Transfer to assets held for sale (Note 15)	–	(39)	(1,276)	(1,315)
Disposals	–	(1,138)	–	(1,138)
Assets written-off	–	(13,269)	–	(13,269)
Foreign exchange adjustments	–	30	–	30
At 31 March 2019	153,913	184,318	23,340	361,571
<u>Accumulated depreciation and impairment:</u>				
At 1 April 2017	31,531	89,830	–	121,361
Depreciation for the year	6,128	11,962	–	18,090
Disposals	–	(3,015)	–	(3,015)
Assets written-off	–	(228)	–	(228)
Foreign exchange adjustments	–	(24)	–	(24)
At 31 March 2018	37,659	98,525	–	136,184
Depreciation for the year	8,644	10,157	–	18,801
Transfer to assets held for sale (Note 15)	–	(4)	–	(4)
Disposals	–	(1,064)	–	(1,064)
Assets written-off	–	(13,074)	–	(13,074)
Impairment allowance for the year	70,518	48,503	–	119,021
Foreign exchange adjustments	–	27	–	27
At 31 March 2019	116,821	143,070	–	259,891
<u>Carrying value:</u>				
At 1 April 2017	90,820	96,352	20,768	207,940
At 31 March 2018	112,845	85,612	29,729	228,186
At 31 March 2019	37,092	41,248	23,340	101,680

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2019

12. Property, plant and equipment (continued)

<u>Company</u>	Plant and equipment RMB'000
<u>Cost:</u>	
At 1 April 2017	904
Foreign exchange adjustments	(26)
At 31 March 2018	878
Disposals	(684)
Foreign exchange adjustments	30
At 31 March 2019	224
<u>Accumulated depreciation:</u>	
At 1 April 2017	791
Depreciation for the year	35
Foreign exchange adjustments	(24)
At 31 March 2018	802
Depreciation for the year	28
Disposals	(633)
Foreign exchange adjustments	27
At 31 March 2019	224
<u>Carrying value:</u>	
At 1 April 2017	113
At 31 March 2018	76
At 31 March 2019	-

- i. Certain leasehold properties of the Group with carrying value of RMB45.6 million (2018: RMB54.5 million) are pledged to the bank for credit facilities (Note 22).
- ii. Construction-in-progress represents warehouse and production facilities under construction.
- iii. The depreciation expense is charged as follows:

	Group	
	2019	2018
	RMB'000	RMB'000
Cost of sales	15,498	15,390
Administrative expenses	1,713	1,110
Charge against provision for safety expenses	1,590	1,590
	<u>18,801</u>	<u>18,090</u>

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2019

12. Property, plant and equipment (continued)

During the reporting year, the group has made impairment allowance of RMB70.5 million and RMB48.5 million for a subsidiary's leasehold properties and plant and equipment respectively, due to the continuing losses incurred by the subsidiary and new regulatory directives issued during the year that could potentially lead to technology obsolescence for certain production lines.

The recoverable amount of property, plant and equipment has been determined on the basis of their value in use using discounted cash flow method. The key assumptions for the discounted cash flow method are those regarding the discount rates, growth rates and budgeted gross margin and revenue during the period. The group estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and risks specific to the CGUs. The growth rates are based on long-term average economic growth rate of the geographical area in which the businesses operate. Budgeted gross margin and turnover are based on past practices and expectations on market development.

The group prepares cash flow forecasts derived from the most recent financial budgets approved by the directors for the next five years with the residual period using the terminal growth rate of 1%. This rate does not exceed the average long-term growth rate for the relevant terminal markets. The rate used to discount the forecast cash flows from the group's trading activities is 12.5%.

The value-in-use is a recurring fair value measurement (Level 3). The quantitative information about the value-in-use measurement using significant unobservable inputs for the CGUs are consistent with those used for the measurement last performed.

Actual outcomes could vary from these estimates. If the revised discount rate is higher by one percentage point, there would be a need to reduce the carrying amount of property, plant and equipment by RMB9.3 million.

13. Other assets

	Group		
	31.03.2019	31.03.2018	01.04.2017
	RMB'000	RMB'000	RMB'000
<u>Non-current:</u>			
Land use rights (Note 13A)	62,241	80,251	75,566
	62,241	80,251	75,566
<u>Current:</u>			
Deposits to secure services	62	64	66
Prepayments	517	287	77
Prepayments for land use rights	–	–	8,609
Advances to suppliers	11,189	7,436	9,368
Advances to staff	1,359	1,481	2,245
	13,127	9,268	20,365
	75,368	89,519	95,931

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2019

13. Other assets (continued)

	Company		
	31.03.2019	31.03.2018	01.04.2017
	RMB'000	RMB'000	RMB'000
<u>Current:</u>			
Deposits to secure services	62	64	66
Prepayments	137	72	77
	199	136	143

13A. Land use rights

	Group RMB'000
<u>Cost:</u>	
At 1 April 2017	91,195
Additions	7,404
At 31 March 2018	98,599
Transfer to assets held for sale (Note 15)	(1,888)
Disposal	(17,010)
At 31 March 2019	79,701
<u>Accumulated amortisation:</u>	
At 1 April 2017	15,629
Amortisation for the year	2,719
At 31 March 2018	18,348
Amortisation for the year	2,728
Transfer to assets held for sale (Note 15)	(146)
Disposal	(3,470)
At 31 March 2019	17,460
<u>Net book value:</u>	
At 1 April 2017	75,566
At 31 March 2018	80,251
At 31 March 2019	62,241

The amortisation expense is charged to administrative expenses.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2019

13. Other assets (continued)

13A. Land use rights (continued)

Detail of the group's land use rights:

Address	Land area (Sq m)	Date of grant	Lease expiry date
Taoyuan Village, Feicheng Town, Fei County, Linyi City*	49,511	29 January 2010	16 March 2060
Tulonggou Village, Feicheng Town, Fei County, Linyi City*	40,822	23 April 2010	16 December 2059
Changsheng Village, Feicheng Town, Fei County, Linyi City*	6,023	23 March 2012	19 November 2048
Changsheng Village, Feicheng Town, Fei County, Linyi City*	23,957	23 March 2012	19 December 2030
Changsheng Village, Feicheng Town, Fei County, Linyi City*	26,358	23 March 2012	16 March 2048
Changsheng Village, Feicheng Town, Fei County, Linyi City*	41,624	23 March 2012	7 November 2048
Kele Village, Zhutian Town, Fei County, Linyi City*	30,933	23 March 2012	15 December 2030
Kele Village, Zhutian Town, Fei County, Linyi City*	13,262	23 March 2012	25 January 2055
Xixinan Village, Feicheng Town, Fei County, Linyi City	79,136	5 June 2012	25 February 2037
Tulonggou Village, Feicheng Town, Fei County, Linyi City	58,508	5 June 2012	25 February 2037
Xixinan Village, Feicheng Town, Fei County, Linyi City	74,034	5 June 2012	25 February 2037
Tulonggou Village, Feicheng Town, Fei County, Linyi City	70,220	5 June 2012	25 February 2037
Changsheng Village, Feicheng Town, Fei County, Linyi City	14,981	5 June 2012	25 February 2037
Changsheng Village, Feicheng Town, Fei County, Linyi City	10,844	15 July 2014	8 May 2064
LeHe, Zhutian Town, Fei County, Linyi City	27,306	15 July 2014	8 May 2064
Beitian Jinwangshu, Hetouwan Village, Dasai Village, Mazhuang Town, Fei County, Linyi City	19,966	10 October 2018	9 October 2067

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2019

13. Other assets (continued)

13A. Land use rights (continued)

Address	Land area (Sq m)	Date of grant	Lease expiry date
Hetouwan Village, Dasai Village, Mazhuang Town, Fei County, Linyi City	18,295	10 October 2018	9 October 2067

* These land use rights with carrying value of RMB20.2 million (2018: RMB21.0 million) were pledged for banking facilities (see Note 22).

During the year, a subsidiary's land use right in Shanting District, North Town, Tieshan Village, East of Huangshan, Zaozhuang City, was repossessed by local government authorities as the land was not developed and the subsidiary has also not paid the remaining consideration of RMB17 million. Accordingly, all the assets and liabilities associated to the land use right were written off as at the financial year end.

14. Investment in subsidiaries

	Company		
	31.03.2019	31.03.2018	01.04.2017
	RMB'000	RMB'000	RMB'000
Unquoted equity shares at cost	113,143	113,143	113,143
Foreign currency translation difference	(1,535)	(5,212)	(1,993)
	<u>111,608</u>	<u>107,931</u>	<u>111,150</u>
Net book value of subsidiaries	<u>201,635</u>	<u>368,269</u>	<u>374,506</u>
Analysis of above amount denominated in non functional currency:			
Chinese RMB	<u>111,608</u>	<u>107,931</u>	<u>111,150</u>

The subsidiaries held by the company are listed below:

Name of Subsidiaries, Country of Incorporation, Place of Operations and Principal Activities	Cost of the Investment			Percentage of equity held by Group		
	31.03.2019	31.03.2018	01.04.2017	31.03.2019	31.03.2018	01.04.2017
	RMB'000	RMB'000	RMB'000	%	%	%
Shandong Yinguang Technology Co., Ltd. # (山东银光科技有限公司) ("YG Tech") People's Republic of China Production and sale of commercial explosive products	<u>113,143</u>	<u>113,143</u>	<u>113,143</u>	<u>100</u>	<u>100</u>	<u>100</u>

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2019

14. Investment in subsidiaries (continued)

Name of Subsidiaries, Country of Incorporation, Place of Operations and Principal Activities	Cost of the Investment			Percentage of equity held by Group		
	31.03.2019	31.03.2018	01.04.2017	31.03.2019	31.03.2018	01.04.2017
	RMB'000	RMB'000	RMB'000	%	%	%
<u>Held by YG Tech</u>						
Shandong Jiehua Wenlv Zhiye Co., Ltd. # (山东杰化文旅置业有限公司) ("Wenlv Zhiye") People's Republic of China Properties holding and management	10,000	10,000	–	100	100	–

For the purpose of preparing the group's financial statements, these financial statements as at reporting year end were audited by Zhongxinghua Certified Public Accountant LLP, a member of the Chinese Institute of Certified Public Accountants and an approved firm by the China Securities Regulatory Commission. The statutory financial statements for compliance with the laws of PRC were audited by Xinlianyi Certified Public Accountants Co., Ltd, Linyi Office.

As is required by Rule 716 of the Listing Manual of The Singapore Exchange Securities Trading Limited the audit committee and the board of directors of the company have satisfied themselves that the appointment of different auditors for its overseas subsidiaries would not compromise the standard and effectiveness of the audit of the group.

15. Assets held for sale

On 29 July 2018, YG Tech has signed an agreement to dispose of a piece of land located at Zhutian Town, Fei County, Linyi City together with its associate construction-in-progress and plant and equipment for a cash consideration of RMB3.56 million.

At end of the reporting year, the sale transaction has not complete as the title of land use right has yet to be transferred to the buyer and no payment has been received from the buyer in accordance with the sales agreement. Accordingly, management has reclassified the net book value of the land use rights and its associate construction-in-progress and plant and equipment to assets held for sales. The sale is expected to be completed within the next twelve months.

	Group 2019 RMB'000
Assets held for sale:	
Plant and equipment at net book value	35
Construction-in-progress at net book value	1,276
Land use right at net book value	1,742
Carrying value in statement of financial position	<u>3,053</u>

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Year ended 31 March 2019

16. Inventories

	Group		
	31.03.2019	31.03.2018	01.04.2017
	RMB'000	RMB'000	RMB'000
<u>At cost:</u>			
Raw materials	10,771	7,271	9,360
Work-in-progress	5,804	7,430	10,996
Finished goods	5,810	17,367	14,997
	22,385	32,068	35,353
<u>At net realisable value:</u>			
Finished goods	527	–	–
Total inventories	22,912	32,068	35,353

Inventories recognised in profit or loss are as follows:

	Group	
	2019	2018
	RMB'000	RMB'000
Write down of inventories charged to profit or loss included in other losses	139	–
Changes in inventories of finished goods and work in progress	12,656	1,196
Raw materials and consumables used	48,667	76,393

There are no inventories pledged as security for liabilities.

17. Trade and other receivables

	Group		
	31.03.2019	31.03.2018	01.04.2017
	RMB'000	RMB'000	RMB'000
<u>Trade receivables:</u>			
Outside parties	43,602	72,026	71,555
Less collective impairment allowance	(7,115)	–	–
Less individual impairment allowance	(9,414)	(21,676)	(20,328)
Related party	2,203	2,824	2,057
	29,276	53,174	53,284
<u>Other receivables:</u>			
Outside parties	2,752	1,554	1,851
Refundable deposits	–	–	6,000
Less allowance for impairment	(1,010)	–	–
	1,742	1,554	7,851
	31,018	54,728	61,135

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2019

17. Trade and other receivables (continued)

	Company		
	31.03.2019	31.03.2018	01.04.2017
	RMB'000	RMB'000	RMB'000
<u>Other receivables:</u>			
Subsidiary (Note 3)	4,738	78	30
	<u>4,738</u>	<u>78</u>	<u>30</u>
		Group	
		2019	2018
		RMB'000	RMB'000
<u>Movement in the above allowance – trade receivables</u>			
Balance at beginning of the year		(21,676)	(20,328)
Effect on adoption of SFRS(I) 9 (Note 30)		(6,755)	–
Balance at beginning of the year, restated		<u>(28,431)</u>	<u>(20,328)</u>
Bad debts written-off		14,131	14
Collective impairment allowance charge to profit or loss included in other losses		(360)	–
Individual impairment allowance charge to profit or loss included in other losses		(3,247)	(1,692)
Doubtful debts recovered		1,378	330
Balance at end of the year		<u>(16,529)</u>	<u>(21,676)</u>
<u>Movement in the above allowance – other receivables</u>			
Balance at beginning of the year		–	–
Charge to profit or loss included in other losses		(1,010)	–
Balance at end of the year		<u>(1,010)</u>	<u>–</u>

17A. Trade receivables

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.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2019

17. Trade and other receivables (continued)

17A. Trade receivables (continued)

At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed. The loss allowance was determined as follows:

Group	Gross amount *		Weighted ECL rate		Loss allowance	
	2019	2018	2019	2018	2019	2018
	RMB'000	RMB'000	%	%	RMB'000	RMB'000
Current	21,178	31,804	1.36	1.70	288	541
Past due:						
1 – 90 days	4,959	13,948	19.62	15.87	973	2,213
91 – 180 days	3,570	3,329	28.52	32.02	1,018	1,066
181 days – 270 days	4,073	2,620	54.63	55.80	2,225	1,462
Over 270 days	2,611	1,473	100.00	100.00	2,611	1,473
	<u>36,391</u>	<u>53,174</u>			<u>7,115</u>	<u>6,755</u>

* Exclude receivables that have been individually credit impaired.

Trade receivables are written-off when there are indications that there is no reasonable expectation of recovery or the failure of a debtor to make contractual payments over an extended period.

At each subsequent reporting date, an evaluation is made as to whether there is significant change in credit risk by comparing the debtor's credit risk at initial recognition (based on the original, unmodified cash flows) with the credit risk at reporting date (based on modified cash flows). Adjustment to loss allowance is made for any increase or decrease in credit risk.

The loss allowance as at 1 April 2018 was RMB21,676,000. There was an additional ECL allowance of RMB6,755,000 recognised upon the initial application of SFRS(I) 9 Financial Instruments as disclosed in Note 30.

As part of the process of setting customer credit limits, different credit terms are used. The average credit period generally granted to customers is about 90 days (2018: 90 days). However, certain customers may take a longer period to settle the amounts.

Concentration of trade receivable customers at end of reporting year is as follows:

Group	31.03.2019	31.03.2018	01.04.2017
	RMB'000	RMB'000	RMB'000
Top 1 customer	7,887	14,702	7,392
Top 2 customers	12,625	19,423	11,710
Top 3 customers	<u>16,095</u>	<u>23,066</u>	<u>15,758</u>

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2019

17. Trade and other receivables (continued)

17B. Other receivables

Other receivables at amortised cost set out above are subject to the ECL model under the financial reporting standard on financial instruments. Other receivables at amortised cost and which can be graded as low risk individually are considered to have low credit risk. At the end of the first reporting period a loss allowance is recognised at an amount equal to 12-month ECL because there has not been a significant increase in credit risk since initial recognition. No loss allowance is necessary.

At each subsequent reporting date, an evaluation is made as to whether there is significant change in credit risk by comparing the debtor's credit risk at initial recognition (based on the original, unmodified cash flows) with the credit risk at reporting date (based on modified cash flows). Adjustment to loss allowance is made for any increase or decrease in credit risk. As there is a significant increase in credit risk, a loss allowance of RMB1,010,000 is recognised based on lifetime expected credit risk losses of the receivables.

18. Cash and cash equivalents

	Group		
	31.03.2019	31.03.2018	01.04.2017
	RMB'000	RMB'000	RMB'000
Not restricted in use	83,207	89,018	83,250

	Company		
	31.03.2019	31.03.2018	01.04.2017
	RMB'000	RMB'000	RMB'000
Not restricted in use	804	358	200

The interest earning balances are not significant.

18A. Non-cash transactions

	Group	
	2019	2018
	RMB'000	RMB'000
Costs of property, plant and equipment purchased	12,893	38,841
Amount financed through a related party (Note 21)	–	(18,293)
Cash disbursed for purchase of property, plant and equipment	12,893	20,548

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2019

18. Cash and cash equivalents (continued)

18B. Reconciliation of liabilities arising from financing activities

Group	At	Cash flows		Non-cash	At end
	beginning	Repayment	Drawdown	changes	
	RMB'000	RMB'000	RMB'000	Fair value	of the year
				changes	
				RMB'000	RMB'000
<u>2019</u>					
Bank borrowings (Note 22)	59,650	(59,650)	58,000	–	58,000
Related party loan (Note 21)	18,293	–	–	1,215	19,508
	<u>77,943</u>	<u>(59,650)</u>	<u>58,000</u>	<u>1,215</u>	<u>77,508</u>

Group	At	Cash flows		Non-cash changes		
	beginning	Repayment	Drawdown	Acquisitions	Fair value	
	RMB'000	RMB'000	RMB'000	RMB'000	changes	
					RMB'000	
					At end	
					of the year	
					RMB'000	
<u>2018</u>						
Bank borrowings (Note 22)	59,650	(59,650)	59,650	–	–	59,650
Related party loan (Note 21)	–	–	–	23,010	(4,717)	18,293
	<u>59,650</u>	<u>(59,650)</u>	<u>59,650</u>	<u>23,010</u>	<u>(4,717)</u>	<u>77,943</u>

19. Share capital

	Group and Company		
	Number	Share	Issued
	of shares	capital	share
	issued	S\$	capital
			RMB
			Equivalent
<u>Ordinary shares of no par value:</u>			
Balance at beginning of the year and end of reporting year 2018 and 2019	46,800,000	23,458,985	116,848,607

The ordinary shares of no par value carry no right to fixed income and are fully paid and with one vote per share. The company is not subject to any externally imposed capital requirements except the only externally imposed capital requirement is that for the group to maintain its listing on the Singapore Exchange Securities Trading Limited it has to have share capital of at least a free float of at least 10% of the shares. The company met the capital requirement on its initial listing and the rules limiting treasury share purchases mean it will automatically continue to satisfy that requirement, as it did throughout the year. Management receives a report from the registrars frequently on substantial share interests showing the non-free float and it demonstrated continuing compliance with the 10% limit throughout the year.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2019

19. Share capital (continued)

Capital management:

The objectives when managing capital are: to safeguard the reporting entity's ability to continue as a going concern, so that it can continue to provide returns for owners and benefits for other stakeholders, and to provide an adequate return to owners by pricing the sales commensurately with the level of risk. The management sets the amount of capital to meet its requirements and the risk taken. There were no changes in the approach to capital management during the reporting year. The management manages the capital structure and makes adjustments to it where necessary or possible in the light of changes in conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the management may adjust the amount of dividends paid to owners, return capital to owners, issue new shares, or sell assets to reduce debt. Adjusted capital comprises all components of equity (that is, share capital and reserves).

The group has significant borrowings but the borrowings are less than the cash available. The debt-to-adjusted capital ratio therefore does not provide a meaningful indicator of the risk of borrowings.

20. Other reserves

	Group		
	31.03.2019	31.03.2018	01.04.2017
	RMB'000	RMB'000	RMB'000
Statutory reserve	44,117	44,117	44,117
Foreign currency translation reserve	871	835	852
Capital reserve	44,000	44,000	44,000
	88,988	88,952	88,969
	Company		
	31.03.2019	31.03.2018	01.04.2017
	RMB'000	RMB'000	RMB'000
Foreign currency translation reserve	(664)	(4,377)	(1,141)
	(664)	(4,377)	(1,141)

All reserves classified on the face of the statement of financial position as retained earnings represents past accumulated earnings and are distributable as cash dividends. The other reserves are not available for cash dividends unless realised.

Movement of the reserves are presented in the statement of changes in equity.

Statutory reserve

Under the PRC regulations, the subsidiary is required to set up a statutory reserve which represents a non-distributable reserve made at a rate of 10% of net profit after tax. Contribution to this reserve is no longer mandatory when the reserve reaches 50% of the registered share capital. The reserve is to be used in accordance to the circumstances as stipulated in the relevant regulations.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2019

20. Other reserves (continued)

Foreign currency translation reserve

The foreign currency translation reserve accumulates all foreign exchange difference arising from the translation of the company's financial statements to presentation currency in RMB.

Capital reserve

Capital reserve arises from the capitalisation of subsidiary's statutory reserve and retained earnings in prior years.

21. Trade and other payables

	Group		
	31.03.2019	31.03.2018	01.04.2017
	RMB'000	RMB'000	RMB'000
<u>Non-current:</u>			
<u>Other payables:</u>			
Related party's loan (Note 21A)	19,508	18,293	–
Total non-current portion	19,508	18,293	–
<u>Current:</u>			
<u>Trade payables:</u>			
Outside parties and accrued liabilities	49,111	54,196	42,355
Related parties	4,852	3,924	3,644
	53,963	58,120	45,999
<u>Other payables:</u>			
Related parties (Note 3)	557	557	935
Payable for land use rights (Note 13A)	–	17,010	17,010
Outside parties	1,933	1,968	3,545
	2,490	19,535	21,490
Total current portion	56,453	77,655	67,489
Total trade and other payables	75,961	95,948	67,489
	Company		
	31.03.2019	31.03.2018	01.04.2017
	RMB'000	RMB'000	RMB'000
<u>Current:</u>			
<u>Trade payables:</u>			
Outside parties and accrued liabilities	1,938	2,262	3,320
	1,938	2,262	3,320
<u>Other payables:</u>			
Outside parties	1,028	384	424
	1,028	384	424
Total trade and other payables	2,966	2,646	3,744

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2019

21. Trade and other payables (continued)

21A. Related party's loan

	Group	
	2019	2018
	RMB'000	RMB'000
<u>Movement during the year, at amortised cost:</u>		
Balance at beginning of the year	18,293	–
Addition	–	23,010
Adjustment on date of initial recognition, at amortised cost	–	(4,717)
Unwinding of discounts	1,215	–
Balance at end of the year (Note 3)	19,508	18,293

Related party's loan was obtained in previous reporting year to finance the acquisition of leasehold properties. The loan is unsecured, interest-free and repayable in 2021 and 2022. The amount is stated at amortised cost at 6.65% (2018: 6.65%) per annum based on estimated current lending rate (Level 3). Significant increase or (decrease) in the interest rate in isolation would result in lower or (higher) fair value measurement.

On the date of initial recognition, the net difference between the cash price equivalent and the fair value of the interest free loan amounting to RMB4,717,000 was adjusted against the cost of the leasehold properties acquired and amortised over tenure of loan.

22. Other financial liabilities

	Group		
	31.03.2019	31.03.2018	01.04.2017
	RMB'000	RMB'000	RMB'000
Bank borrowings	58,000	59,650	59,650

The bank borrowings are secured on the leasehold properties and land use rights of a subsidiary with net book value of approximately RMB65.8 million (2018: RMB75.5 million) and bear the following terms:

2019: Loan principal (RMB'000)	Interest rate (%)	Maturity dates	2018: Loan principal (RMB'000)	Interest rate (%)	Maturity dates
10,000	5.043	10 April 2019*	10,000	4.73	2 May 2018
10,000	5.090	3 May 2019*	20,000	4.73	1 June 2018
10,000	5.047	3 June 2019*	8,000	4.73	1 August 2019
8,000	5.043	1 August 2019	21,650	4.82	24 October 2019
10,000	4.790	2 September 2019			
10,000	4.785	9 October 2019			
58,000			59,650		

* Subsequent to the end of reporting year, these loans have been fully repaid and new loans of RMB20 million were obtained.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2019

23. Other liabilities

	Group		
	31.03.2019	31.03.2018	01.04.2017
	RMB'000	RMB'000	RMB'000
Advances from customers	4,167	3,362	1,472
Deferred revenue	–	279	697
Provision for safety expenses (Note 23A)	205	916	380
	4,372	4,557	2,549

23A. Provision for safety expenses

Provision for safety expenses are made in accordance with the safety regulation of People's Republic of China.

Movement in the provision for safety expenses:

	Group	
	2019	2018
	RMB'000	RMB'000
Balance at beginning of the year	916	380
Provision for the year	2,471	2,656
Utilisation during the year	(3,182)	(2,120)
Balance at end of the year	205	916

24. Capital commitments

Estimated amounts committed at the end of the reporting year for future capital expenditure but not recognised in the financial statements are as follows:

	Group		
	31.03.2019	31.03.2018	01.04.2017
	RMB'000	RMB'000	RMB'000
Commitments to purchase of property, plant and equipment	15,548	13,456	46,313

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2019

25. Operating lease payment commitments – as lessee

At the end of the reporting year, the total of future minimum lease payment commitments under non-cancellable operating leases are as follows:

	Group		
	31.03.2019	31.03.2018	01.04.2017
	RMB'000	RMB'000	RMB'000
Not later than one year	63	243	250
Later than one year and not later than five years	–	40	291
Rental expenses for the year	231	247	246

Operating lease payments are for rentals payable for office building. The lease rental terms are negotiated for an average term of two to three years and rentals are not subject to an escalation clause.

26. Financial instruments: information on financial risks

26A. Categories of financial assets and liabilities

The following table categorises the carrying amount of financial assets and liabilities recorded at the end of the reporting year.

	Group		
	31.03.2019	31.03.2018	01.04.2017
	RMB'000	RMB'000	RMB'000
<u>Financial assets:</u>			
Financial assets at amortised cost	114,225	143,746	144,385
<u>Financial liabilities:</u>			
Financial liabilities at amortised cost	133,961	155,598	127,139
	Company		
	31.03.2019	31.03.2018	01.04.2017
	RMB'000	RMB'000	RMB'000
<u>Financial assets:</u>			
Financial assets at amortised cost	5,542	436	230
<u>Financial liabilities:</u>			
Financial liabilities at amortised cost	2,966	2,646	3,744

Further quantitative disclosures are included throughout these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2019

26. Financial instruments: information on financial risks (continued)

26B. Financial risk management

The main purpose for holding or issuing financial instruments is to raise and manage the finances for the entity's operating, investing and financing activities. There are exposures to the financial risks on the financial instruments such as credit risk, liquidity risk and market risk comprising interest rate, currency risk and price risk exposures. Management has certain practices for the management of financial risks. The guidelines set up the short and long term objectives and action to be taken in order to manage the financial risks. The guidelines include the following:

1. Minimise interest rate, currency, credit and market risk for all kinds of transactions.
2. Maximise the use of "natural hedge": favouring as much as possible the natural off-setting of sales and costs and payables and receivables denominated in the same currency and therefore put in place hedging strategies only for the excess balance (if necessary). The same strategy is pursued with regard to interest rate risk.
3. All financial risk management activities are carried out and monitored by senior management staff.
4. All financial risk management activities are carried out following acceptable market practices.
5. When appropriate consideration is given to entering into derivatives or any other similar instruments solely for hedging purposes.

There have been no changes to the exposures to risk; the objectives, policies and processes for managing the risk and the methods used to measure the risk.

26C. Fair values of financial instruments

The analyses of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 are disclosed in the relevant notes to the financial statements. These include the significant financial instruments stated at amortised cost and at fair value in the statement of financial position. The carrying values of current financial instruments approximate their fair values due to the short-term maturity of these instruments and the disclosures of fair value are not made when the carrying amount of current financial instruments is a reasonable approximation of the fair value.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2019

26. Financial instruments: information on financial risks (continued)

26D. Credit risk on financial assets

Financial assets that are potentially subject to concentrations of credit risk and failures by counterparties to discharge their obligations in full or in a timely manner. These arise principally from cash balances with banks, cash equivalents, receivables and other financial assets. The maximum exposure to credit risk is the total of the fair value of the financial assets at the end of the reporting year. Credit risk on cash balances with banks and any other financial instruments is limited because the counter-parties are entities with acceptable credit ratings. For expected credit losses (ECL) on financial assets, the three-stage approach in the financial reporting standard on financial instruments is used to measure the impairment allowance. Under this approach the financial assets move through the three stages as their credit quality changes. However, a simplified approach is permitted by the financial reporting standards on financial instruments for financial assets that do not have a significant financing component, such as trade receivables. On initial recognition, a day-1 loss is recorded equal to the 12 month ECL (or lifetime ECL for trade receivables), unless the assets are considered credit impaired. For credit risk on trade receivables an ongoing credit evaluation is performed on the financial condition of the debtors and an impairment loss is recognised in profit or loss. Reviews and assessments of credit exposures in excess of designated limits are made. Renewals and reviews of credits limits are subject to the same review process.

Note 18 discloses the maturity of the cash and cash equivalents balances. Cash and cash equivalents are also subject to the impairment requirements of the standard on financial instruments. There was no identified impairment loss.

26E. Liquidity risk – financial liabilities maturity analysis

The liquidity risk refers to the difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. It is expected that all the liabilities will be settled at their contractual maturity. The average credit period taken to settle trade payables is about 180 days (2018: 180 days). The classification of the financial assets is shown in the statement of financial position as they may be available to meet liquidity needs and no further analysis is deemed necessary.

The following table analyses the non-derivate financial liabilities by remaining contractual maturity (contractual and undiscounted cash flows).

Group	Less than 1 year RMB'000	1 – 3 years RMB'000	Total RMB'000
<u>31.03.2019:</u>			
Gross borrowings commitments	58,749	–	58,749
Trade and other payables	56,453	23,010	79,463
At end of the year	115,202	23,010	138,212
<u>31.03.2018:</u>			
Gross borrowings commitments	60,584	–	60,584
Trade and other payables	77,655	23,010	100,665
At end of the year	138,239	23,010	161,249
<u>01.04.2017</u>			
Gross borrowings commitments	60,576	–	60,576
Trade and other payables	67,489	–	67,489
At end of the year	128,065	–	128,065



NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2019

26. Financial instruments: information on financial risks (continued)

26E. Liquidity risk – financial liabilities maturity analysis (continued)

Company	Less than 1 year RMB'000
<u>31.03.2019:</u>	
Trade and other payables	2,966
At end of the year	2,966
<u>31.03.2018:</u>	
Trade and other payables	2,646
At end of the year	2,646
<u>01.04.2017</u>	
Trade and other payables	3,744
At end of the year	3,744

The undiscounted amounts on the bank borrowings with fixed interest rates are determined by reference to the conditions existing at the reporting date.

The above amounts disclosed in the maturity analysis are the contractual undiscounted cash flows and such undiscounted cash flows differ from the amount included in the statement of financial position. When the counterparty has a choice of when an amount is paid, the liability is included on the basis of the earliest date on which it can be required to pay.

26F. Interest rate risk

The interest rate risk exposure is from changes in interest rates and it mainly concerns financial liabilities. The interest from financial assets including cash balances is not significant. The following table analyses the breakdown of the significant financial instruments by type of interest rates:

	Group		
	31.03.2019	31.03.2018	01.04.2017
	RMB'000	RMB'000	RMB'000
<u>Financial liabilities:</u>			
Fixed rates	58,000	59,650	59,650
At end of the year	58,000	59,650	59,650

Sensitivity analysis: The effect on pre-tax loss is not significant.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2019

26. Financial instruments: information on financial risks (continued)

26G. Foreign currency risks

Analysis of amount denominated in non-functional currency:

<u>Company</u>	Chinese RMB RMB'000
<u>31.03.2019:</u>	
Financial assets:	
Loans and receivables	<u>4,738</u>
<u>31.03.2018:</u>	
Financial assets:	
Loans and receivables	<u>78</u>
<u>01.04.2017:</u>	
Financial assets:	
Loans and receivables	<u>30</u>

There is exposure to foreign currency risk as part of its normal business.

Sensitivity analysis: The effect on pre-tax loss is not significant.

27. Events after the end of the reporting year

On 15 March 2019, Triple Vision Pte. Ltd. (the "Offeror") had announced that it will make a mandatory conditional cash offer (the "Offer") for all the issued and paid-up ordinary shares (the "Shares") in the capital of company at S\$0.158 per share.

As at final closing date, the Offeror has received valid acceptances amounting to 10,418,299 shares, representing approximately 22.26% of the total issued shares of the company. Accordingly, the total number of shares owned and controlled by the Offeror and its concert parties amount to an aggregate of 24,411,499 shares, representing approximately 52.16% of the total number of shares in the company.

28. Changes and adoption of financial reporting standards

The group and the company adopted Singapore Financial Reporting Standards (International) ("SFRS(I)") for the first time for reporting year ended 31 March 2019 and SFRS(I) 1 First-time Adoption of Singapore Financial Reporting Standards (International) has been applied in the first set of SFRS(I) financial statements. SFRS(I) is identical to the International Financial Reporting Standards as issued by the International Accounting Standards Board.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2019

28. Changes and adoption of financial reporting standards (continued)

As a first-time adopter of SFRS(I), the group and the company have applied retrospectively, accounting policies based on each SFRS(I) effective as at end of the first SFRS(I) reporting year, except for areas of exceptions and optional exemptions set out in SFRS(I) 1. In the first set of SFRS(I) financial statements for the reporting year ended 31 March 2019, an additional opening statement of financial position as at 1 April 2017 (the “date of transition”) is presented, together with related notes. Reconciliation statements from previously reported financial reporting framework (“FRS”) amounts and explanatory notes on transition adjustments are presented for equity as at date of transition and as at end of last reporting year ended 31 March 2018 under FRS, and for total comprehensive income and cash flows reported for the last reporting year ended 31 March 2018 under FRS. Additional disclosures are made for specific transition adjustments, if applicable.

There is no significant change to the group’s and the company’s previous accounting policies under previous FRS or material adjustments on the initial transition to the SFRS(I), other than those arising from the application of SFRS(I) 9 Financial Instruments which are effective at the same time. The changes in the detailed application of the accounting policies and some modifications to financial statements presentation and measurement as disclosed in Note 30.

29. New or amended standards in issue but not yet effective

For the future reporting years, certain new or revised financial reporting standards were issued by the Singapore Accounting Standards Council and these will only be effective for future reporting years. Those applicable to the reporting entity for future reporting years are listed below.

SFRS (I) No.	Title	Effective date for periods beginning on or after
SFRS(I) 16	Leases (and Leases - Illustrative Examples & Amendments to Guidance on Other Standards)	1 January 2019
SFRS(I) INT 23	Uncertainty over Income Tax Treatments	1 January 2019
SFRS(I) 1-12	Annual Improvements to SFRS(I) (2015-2017 cycle) – Amendments: Income Taxes	1 January 2019
SFRS(I) 1-23	Annual Improvements to SFRS(I) (2015-2017 cycle) – Amendments: Borrowing Costs	1 January 2019
SFRS(I) 3	Annual Improvements to SFRS(I) (2015-2017 cycle) – Amendments: Business Combinations	1 January 2019
SFRS(I) 9	Amendments to SFRS(I) 9: Prepayment features with Negative Compensation	1 January 2019
SFRS(I) 1-1, 1-8	Amendments to SFRS(I) 1-1 and SFRS 1-8: Definition of Material	1 January 2020
SFRS(I) 3	Amendments to SFRS(I) 3: Definition of a Business	1 January 2020

The transfer to above applicable new or revised standards from the effective dates is not expected to result in any significant modification of the measurement methods or the presentation in the financial statements for the following year from the known or reasonably estimable information relevant to assessing the possible impact that application of the new or revised standards will have on the entity’s financial statements in the period of initial application.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2019

30. Changes in accounting policies and restatements of comparative figures

SFRS(I) 9 contains requirements for the classification and measurement of financial assets and financial liabilities, impairment, hedge accounting and derecognition. It requires all recognised financial assets to be subsequently measured at amortised cost or fair value (through profit or loss or through other comprehensive income), depending on their classification. For financial liabilities, it also has requirements to cases where the fair value option is taken. For impairment of financial assets, it introduces the ECL model; recognition of a credit loss should no longer wait for there to be objective evidence of impairment. For hedge accounting, it allows financial statements to better reflect how risk management activities are undertaken when hedging financial and non-financial risk exposures. Prior reporting periods need not be restated. The Group may restate prior periods if, and only if, it is possible without the use of hindsight. Therefore, the standard has been applied for the reporting year ended 31 March 2019 only. As the Group does not restate prior periods, it has recognised the difference if any between the previous carrying amount and the carrying amount at 1 April 2018 in the opening retained earnings/equity. The details of adjustments to opening account balances as at 1 April 2018 are as follows:

	Adjusted balance at 1 April 2018	As reported at 31 March 2018	Difference
	RMB'000	RMB'000	RMB'000
<u>Group</u>			
Statement of financial position:			
Trade and other receivables	47,973	54,728	(6,755)
Retained earnings	136,772	143,527	(6,755)

The group applied the simplified approach to recognise lifetime ECL for the trade receivables. The application of the ECL model upon adoption of the new standard resulted in the recognition of credit losses of about RMB6,755,000 as at 1 April 2018.

STATISTICS OF SHAREHOLDINGS

As at 20 June 2019

Issued and fully paid-up capital:	RMB 116,848,607
No. of shares issued:	46,800,000
No. / % of treasury shares:	Nil
Class of shares:	Ordinary shares
Voting rights:	One vote per share

DISTRIBUTION OF SHAREHOLDINGS

SIZE OF SHAREHOLDINGS	NO. OF SHAREHOLDERS	%	NO. OF SHARES	%
1 - 99	0	0.00	0	0.00
100 - 1,000	132	27.73	91,200	0.19
1,001 - 10,000	278	58.40	1,089,300	2.33
10,001 - 1,000,000	62	13.03	3,753,301	8.02
1,000,001 AND ABOVE	4	0.84	41,866,199	89.46
TOTAL	476	100.00	46,800,000	100.00

TWENTY LARGEST SHAREHOLDERS

NO.	NAME	NO. OF SHARES	%
1	TRIPLE VISION PTE LTD	24,411,499	52.16
2	FORTSMITH INVESTMENTS LIMITED	15,140,000	32.35
3	PHILLIP SECURITIES PTE LTD	1,190,000	2.54
4	CITIBANK NOMINEES SINGAPORE PTE LTD	1,124,700	2.40
5	CHUA SEK HOW	281,400	0.60
6	GOH KIAN SOON (WU JIANSHUN)	279,200	0.60
7	LEOW KIM HOW	272,200	0.58
8	DBS NOMINEES (PRIVATE) LIMITED	243,701	0.52
9	ANG KENG THIONG @ ANG HARRY	228,000	0.49
10	SIM LAI HEE	199,600	0.43
11	RAFFLES NOMINEES (PTE.) LIMITED	173,800	0.37
12	FONG SOON YONG	151,900	0.32
13	CHEW BOON CHUN	142,200	0.30
14	TAN KIM TUAN	118,000	0.25
15	KOH WEE KIAT KEITH (XU WEIJIE KEITH)	117,600	0.25
16	KUEK SIAW KIA @ QUEK SHIEW POH	99,800	0.21
17	TAN LEE HOON	90,000	0.19
18	NG BOON GUAT	80,000	0.17
19	SOON CHENG CHOON	80,000	0.17
20	SUN ZHIQIANG	76,000	0.16
	TOTAL	44,499,600	95.06

STATISTICS OF SHAREHOLDINGS

As at 20 June 2019

SUBSTANTIAL SHAREHOLDERS

Substantial shareholders of the Company (as recorded in the Register of Substantial Shareholders) as of 20 June 2019.

	Direct Interest	No. of Ordinary Shares		%
		%	Indirect Interest	
Triple Vision Pte. Ltd.	24,411,499	52.16	–	–
Fortsmith Investments Limited	15,140,000	32.35	–	–
Wee Henry ⁽¹⁾	–	–	24,411,499	52.16
Sun Bowen ⁽²⁾	–	–	15,140,000	32.35

Notes:

- (1) Mr Wee Henry is deemed to be interested in the shares held by Triple Vision Pte. Ltd. by virtue of Section 7 of the Singapore Companies Act.
- (2) Mr Sun Bowen is deemed to be interested in the shares held by Fortsmith Investments Limited by virtue of Section 7 of the Singapore Companies Act.

FREE FLOAT

As at 20 June 2019, approximately 15.49% of the issued ordinary shares of the Company was held in the hands of the public (on the basis of information available to the Company).

Accordingly, the Company had complied with Rule 723 of the Listing Manual of the Singapore Exchange Securities Trading Limited.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the Annual General Meeting of FABCHEM CHINA LIMITED will be held at 2 Bukit Merah Central, Level 1 Drucker/Juran Boardroom, Singapore 159835 on Wednesday, 31 July 2019 at 9.30 a.m. for the following purposes: -

AS ORDINARY BUSINESS

1. To receive and adopt the Audited Financial Statements of the Company for the financial year ended 31 March 2019 together with the Statement by Directors and Auditors' Report thereon. **Resolution 1**
2. To approve the payment of Directors' Fees of S\$169,167 for the financial year ended 31 March 2019 (2018: S\$266,000). **Resolution 2**
3. To re-elect Mr Wee Phui Gam who is retiring under Article 107 of the Company's Constitution. **Resolution 3**
(See Explanatory Note 1)
4. To re-elect Mr Sun Bowen who is retiring under Article 107 of the Company's Constitution. **Resolution 4**
(See Explanatory Note 2)
5. To re-appoint Messrs RSM Chio Lim LLP, as auditors of the Company and to authorise the Directors to fix their remuneration. **Resolution 5**
6. To transact any other ordinary business which may be properly transacted at an Annual General Meeting.

AS SPECIAL BUSINESS

To consider and, if thought fit, to pass the following resolution (with or without amendments) as an Ordinary Resolution: -

7. AUTHORITY TO ALLOT AND ISSUE SHARES **Resolution 6**

"THAT pursuant to Section 161 of the Companies Act, Cap. 50 (the "Act") and Rule 806 of the Listing Manual ("Listing Manual") of the Singapore Exchange Securities Trading Limited ("SGX-ST"), the Directors be empowered to allot and issue shares and convertible securities in the capital of the Company (whether by way of rights, bonus or otherwise) at any time and upon such terms and conditions and for such purposes as the Directors may, in their absolute discretion, deem fit,

PROVIDED ALWAYS THAT the aggregate number of shares and convertible securities to be issued pursuant to this resolution shall not exceed fifty percent (50%) of the total number of issued shares excluding treasury shares, of which the aggregate number of shares and convertible securities issued other than on a pro rata basis to existing shareholders must be not more than twenty percent (20%) of the total number of issued shares excluding treasury shares, and that such authority shall continue in force until the conclusion of the next Annual General Meeting or the expiration of the period within which the next Annual General Meeting of the Company is required by law to be held, whichever is the earlier, unless the authority is previously revoked or varied at a general meeting. For the purpose of Rule 806(2), the total number of issued shares excluding treasury shares is based on the Company's total number of issued shares excluding treasury shares at the time of passing of this resolution approving the mandate after adjusting for: -

NOTICE OF ANNUAL GENERAL MEETING

- (a) new shares arising from the conversion or exercise of convertible securities;
- (b) new shares arising from exercising share options or vesting of share awards outstanding or subsisting at the time of the passing of the resolution approving the mandate, provided the options or awards were granted in compliance with Part VIII of Chapter 8; and
- (c) any subsequent bonus issue, consolidation or subdivision of shares.
(See *Explanatory Note 3*)

8. PROPOSED RENEWAL OF THE SHAREHOLDERS' MANDATE FOR INTERESTED PERSON TRANSACTIONS WITH YINGUANG SECURITY AND WULIAN HANYUE **Resolution 7**

"THAT:-

- (a) approval be and is hereby given, for the purposes of Chapter 9 of the Listing Manual of the SGX-ST, for the Company, its Subsidiaries and Associated Companies or any of them to enter into any of the transactions falling within the types of the Interested Person Transactions, particulars of which are set out in the Appendix to this Notice of Annual General Meeting, with any party who is of the class of Interested Persons described in the Appendix to this Notice of Annual General Meeting, provided that such transactions are in accordance with the review procedures for Interested Person Transactions as set out in the Appendix to this Notice of Annual General Meeting ("Yinguang Security and Wulian Hanyue IPT Mandate");
- (b) the approval given in respect of the Yinguang Security and Wulian Hanyue IPT Mandate set out in sub-paragraph (a) above shall unless revoked or varied by the Company in a general meeting continue in force until the next Annual General Meeting of the Company;
- (c) the Audit Committee of the Company be and is hereby authorised to take such action as it deems proper in respect of procedures and/or to modify or implement such procedures as may be necessary to take into consideration any amendments to Chapter 9 of the Listing Manual which may be prescribed by the SGX-ST from time to time; and
- (d) the Directors of the Company be and is hereby authorised, jointly or severally, to take such steps and exercise such discretion as the Directors of the Company may in their absolute discretion deem fit, advisable or necessary or in the interest of the Company to give effect to the Yinguang Security and Wulian Hanyue IPT Mandate and/or this Resolution."

(See *Explanatory Note 4*)

BY ORDER OF THE BOARD

NOR HAFIZA ALWI
COMPANY SECRETARY
SINGAPORE
16 JULY 2019

NOTICE OF ANNUAL GENERAL MEETING

Explanatory Note: -

- (1) Mr Wee Phui Gam will, upon re-appointment as Director of the Company, remain as the Acting Chairman and Lead Independent Director of the Company and Chairman of the Audit, Remuneration and Nominating Committees. He will be considered by the Board of Directors of the Company to be independent for the purposes of Rule 704(8) of the Listing Manual of the Singapore Exchange Securities Trading Limited. Detailed information on Mr Wee Phui Gam can be found in the Annual Report 2019. Save as disclosed therein, there are no material relationships (including immediate family relationships) between Mr Wee Phui Gam and the other Directors of the Company, the Company or its 10% shareholders.
- (2) Mr Sun Bowen will, upon re-appointment as Director of the Company, remain as the Non-Executive Director of the Company and a member of the Audit, Remuneration and Nominating Committees. He will be considered by the Board of Directors of the Company to be non-independent for the purposes of Rule 704(8) of the Listing Manual of the Singapore Exchange Securities Trading Limited. Detailed information on Mr Sun Bowen can be found in the Annual Report 2019. Save as disclosed therein, there are no material relationships (including immediate family relationships) between Mr Sun Bowen and the other Directors of the Company, the Company or its 10% shareholders.
- (3) Resolution No. 6 above, if passed, will empower the Directors of the Company to issue shares and convertible securities in the Company up to a maximum of fifty percent (50%) of the issued share capital of the Company (of which the aggregate number of shares and convertible securities to be issued other than on a pro rata basis to existing shareholders shall not exceed twenty percent (20%) of the issued share capital of the Company) for such purposes as they consider would be in the interests of the Company. This authority will continue in force until the next Annual General Meeting of the Company or the expiration of the period within which the next Annual General Meeting is required by law to be held, whichever is the earlier, unless the authority is previously revoked or varied at a general meeting.
- (4) Resolution No. 7 above, if passed, will renew, effective until the conclusion of the next Annual General Meeting, the Wulian Hanyue and Yinguang Security IPT Mandate to enable the Company, its subsidiaries and associated companies which are considered "entities at risk" to enter in the ordinary course of business into certain types of interested person transactions with specific classes of the Company's interested persons. Particulars of the Wulian Hanyue and Yinguang Security IPT Mandate are set out in the Appendix 1 to this Notice of Annual General Meeting which is enclosed with the Company's Annual Report 2019.

Notes:-

- i. A proxy need not be a member of the Company.
- ii. Except for a member who is a Relevant Intermediary as defined under Section 181(6) of the Companies Act, Chapter 50 of Singapore (the "Companies Act"), a member entitled to attend and vote at this meeting is entitled to appoint not more than two proxies to attend and vote in his stead.
- iii. Where a member appoints more than one proxy, he/she should specify the proportion of his/her shareholding (expressed as a percentage of the whole) to be represented by each proxy. If no percentage is specified, the first named proxy shall be treated as representing 100 per cent of the shareholding and the second named proxy shall be deemed to be an alternate to the first named.
- iv. A member who is a Relevant Intermediary is entitled to appoint more than two proxies to attend and vote at this meeting, but each proxy must be appointed to exercise the rights attached to a different shares held by such member. Where such member appoints more than two proxies, the number and class of shares in relation to which each proxy has been appointed shall be specified in the proxy form.
- v. If the appointor is a corporation, the proxy must be executed under seal or the hand of its duly authorised officer or attorney.
- vi. A Depositor's name must appear on the Depository Register maintained by The Central Depository (Pte) Limited as at 72 hours before the time appointed for holding the Annual General Meeting in order for the Depositor to be entitled to attend and vote at the Annual General Meeting.
- vii. The instrument appointing a proxy must be deposited at the registered office of the Company at 8 Robinson Road, #03-00 ASO Building, Singapore 048544, not less than forty-eight (48) hours before the time for holding the Annual General Meeting.

Personal data privacy:

By submitting a proxy form appointing a proxy(ies) and/or representative(s) to attend, speak and vote at the AGM and/or any adjournment thereof, a member of the Company (i) consents to the collection, use and disclosure of the member's personal data by the Company (or its agents) for the purpose of the processing and administration by the Company (or its agents) of proxies and representatives appointed for the AGM (including any adjournment thereof) and the preparation and compilation of the attendance lists, minutes and other documents relating to the AGM (including any adjournment thereof), and in order for the Company (or its agents) to comply with any applicable laws, listing rules, regulations and/or guidelines (collectively, the "Purposes"), (ii) warrants that where the member discloses the personal data of the member's proxy(ies) and/or representative(s) to the Company (or its agents), the member has obtained the prior consent of such proxy(ies) and/or representative(s) for the collection, use and disclosure by the Company (or its agents) of the personal data of such proxy(ies) and/or representative(s) for the Purposes, and (iii) agrees that the member will indemnify the Company in respect of any penalties, liabilities, claims, demands, losses and damages as a result of the member's breach of warranty.

FABCHEM CHINA LIMITED

(Incorporated in the Republic of Singapore)
(Company Registration No. 200413128G)

IMPORTANT:

1. Relevant intermediaries (as defined in Section 181 of the Companies Act, Chapter 50 of Singapore) may appoint more than two proxies to attend, speak and vote at the Annual General Meeting.
2. For CPF/SRS investors who have used their CPF/SRS monies to buy the Company's shares, this Proxy Form is not valid for use by CPF/SRS investors and shall be ineffective for all intents and purposes if used or purported to be used by them. CPF/SRS investors should contact their respective Agent Banks/SRS Operators if they have any queries regarding their appointment as proxies.

PROXY FORM

I/We _____, (NRIC/Passport No.) _____

of _____
being a member/members of the above-mentioned Company, hereby appoint:-

Name	NRIC/Passport No.	Proportion of Shareholdings	
Address		No. of Shares	%

and/or (delete as appropriate)

Name	NRIC/Passport No.	Proportion of Shareholdings	
Address		No. of Shares	%

or failing him/her, the Chairman of the Meeting as my/our proxy/proxies to attend and to vote for me/us on my/our behalf at the Annual General Meeting of the Company to be held at 2 Bukit Merah Central, Level 1 Drucker/Juran Boardroom, Singapore 159835 on Wednesday, 31 July 2019 at 9.30 a.m. and at any adjournment thereof.

I/We direct my/our proxy/proxies to vote for or against the Resolutions to be proposed at the Meeting as hereunder indicated. If no specific direction as to voting is given or in the event of any other matter arising at the Meeting and at any adjournment thereof, the proxy/proxies will vote or abstain from voting at his/her discretion. The authority herein includes the right to demand or to join in demanding a poll and to vote on a poll.

No.	Ordinary Resolutions	For	Against
Ordinary Business			
1.	To adopt the Audited Financial Statements, Statement by Directors and Auditors' Report of the Company for the financial year ended 31 March 2019.		
2.	To approve the payment of Directors' Fees for the financial year ended 31 March 2019.		
3.	To re-elect Mr Wee Phui Gam as a Director under Article 107.		
4.	To re-elect Mr Sun Bowen as a Director under Article 107.		
5.	To re-appoint RSM Chio Lim LLP as Auditors and authorise Directors to fix their remuneration.		
Special Business			
6.	Approval of Authority to allot and issue shares.		
7.	Proposed renewal of the shareholders' mandate for Interested Person Transactions with Yinguang Security and Wulian Hanyue.		

Dated this _____ day of _____ 2019.



Number of shares held

--

Signature(s) of Shareholder(s)
or, Common Seal of Corporate Shareholder

Notes to the Proxy Form

1. Except for a member who is a Relevant Intermediary as defined under Section 181(6) of the Companies Act, Chapter 50 of Singapore (the "Companies Act") a member entitled to attend and vote at the Annual General Meeting (the "Meeting") is entitled to appoint not more than two proxies to attend and vote in his stead. A proxy need not be a member of the Company.
2. Where a member appoints more than one proxy, he/she should specify the proportion of his/her shareholding (expressed as a percentage of the whole) to be represented by each proxy and if no percentage is specified, the first named proxy shall be treated as representing 100 per cent of the shareholding and the second named proxy shall be deemed to be an alternate to the first named.
3. A member should insert the total number of shares held. If the member has shares entered against his name in the Depository Register Depository Register (as defined in Section 81SF of the Securities and Futures Act, Chapter 289), he should insert that number of shares. If the member has shares registered in his name in the Register of Members of the Company, he should insert the number of shares. If the member has shares entered against his name in the Depository Register and shares registered in his name in the Register of Members of the Company, he should insert the aggregate number of shares. If no number is inserted, this form of proxy will be deemed to relate to all the shares held by the member of the Company.
4. Pursuant to Section 181(1C) of the Companies Act, a member who is a Relevant Intermediaries is entitled to appoint more than two proxies to attend, speak and vote at the Meeting provided that each proxy is appointed to exercise the rights attached to different shares held by the member. In such event, the relevant intermediary shall submit a list of its proxies together with the information required in this proxy form to the Company.
5. The instrument appointing a proxy or proxies must be under the hand of the appointor or of his attorney duly authorized in writing. Where the instrument appointing a proxy or proxies is executed by a corporation, it must be executed either under its seal or under the hand of an officer or attorney duly authorised. Where the instrument appointing a proxy or proxies is executed by an attorney on behalf of the appointor, the letter or power of attorney or a duly certified copy thereof must be lodged with the instrument.
6. A corporation which is a member may authorise by resolution of its directors or other governing body such a person as it thinks fit to act as its representative at the Meeting, in accordance with Section 179 of the Companies Act, Chapter 50 of Singapore.
7. The instrument appointing a proxy or proxies, together with the power of attorney (if any) under which it is signed or a notarially certified or office copy thereof, shall be deposited at the registered office of the Company at 8 Robinson Road, #03-00 ASO Building Singapore 048544, not less than forty-eight (48) hours before the time appointed for the Meeting.
8. Please indicate with an "X" in the spaces provided whether you wish your vote(s) to be for or against the Resolutions as set out in the Notice of Annual General Meeting. In the absence of specific directions, the proxy/proxies will vote or abstain as he/they may think fit, as he/they will on any other matter arising at the Annual General Meeting.
9. The Company shall be entitled to reject the instrument appointing a proxy or proxies if it is incomplete, improperly completed or illegible or where the true intentions of the appointor are not ascertainable from the instructions of the appointor specified in the instrument appointing a proxy or proxies.
10. In the case of members of the Company whose shares are entered against their names in the Depository Register, the Company may reject any instrument appointing a proxy or proxies lodged if such members are not shown to have shares entered against their names in the Depository Register 72 hours before the time appointed for holding the Meeting as certified by The Central Depository (Pte) Limited to the Company.
11. An investor who buys shares using CPF monies ("CPF Investor") and/or SRS monies ("SRS Investor") (as may be applicable) may attend and cast his vote(s) at the Meeting in person. CPF and SRS Investors who are unable to attend the Meeting but would like to vote, may inform their CPF and/or SRS Approved Nominees to appoint the Chairman of the Meeting to act as their proxy, in which case, the CPF and SRS Investors shall be precluded from attending the Meeting.

Personal data privacy

By submitting an instrument appointing a proxy(ies) and/or representative(s), the member accepts and agrees to the personal data privacy terms set out in the Notice of Annual General Meeting dated 16 July 2019.

BOARD OF DIRECTORS

Bao Hongwei	Managing Director
Wee Phui Gam	Acting Chairman and Lead Independent Director
Sun Bowen	Non-Executive and Non-Independent Director
Professor Jiang Rongguang	Independent Director

NOMINATING COMMITTEE

Wee Phui Gam *Chairman*
Professor Jiang Rongguang
Sun Bowen

REMUNERATION COMMITTEE

Wee Phui Gam *Chairman*
Professor Jiang Rongguang
Sun Bowen

AUDIT COMMITTEE

Wee Phui Gam *Chairman*
Professor Jiang Rongguang
Sun Bowen

JOINT COMPANY SECRETARIES

Nor Hafiza Alwi
Loh Mei Ling

MAILING ADDRESS

2 Bukit Merah Central
#12-03
Singapore 159835

REGISTERED OFFICE

8 Robinson Road
#03-00 ASO Building
Singapore 048544
Tel: (65) 6538 0779
Fax: (65) 6438 7926

PRINCIPAL BANKERS

Industrial and Commercial Bank of China
(Fei County Sub-branch)
Feicheng Town, Minzhu Road,
East Section, Fei County,
Shandong 273400, PRC

COMPANY REGISTRATION NUMBER

200413128G

REGISTRAR AND SHARE TRANSFER OFFICE

Boardroom Corporate & Advisory Services
Pte. Ltd.
50 Raffles Place
#32-01
Singapore Land Tower
Singapore 048623

INDEPENDENT AUDITORS

RSM Chio Lim LLP
Certified Public Accountants, Singapore
(Member of RSM International)
8 Wilkie Road
#03-08
Wilkie Edge
Singapore 228095

Partner-in-charge:
Goh Swee Hong
Appointment with effect from financial year
ended 31 March 2019

INVESTOR RELATIONS

8PR Asia Pte Ltd
Alex Tan
Tel: (65) 9451 5252
Email: alex.tan@8prasia.com



FABCHEM CHINA LIMITED

2 Bukit Merah Central
#12-03
Singapore 159835
Tel: (65) 6265 5918 Fax: (65) 6268 2447
www.fabchemchina.com