

CIRCULAR DATED 10 JULY 2014

THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. PLEASE READ IT CAREFULLY.

If you are in any doubt as to the action that you should take, you should consult your stockbroker, bank manager, solicitor, accountant or other professional adviser immediately.

If you have sold or transferred all your shares in the capital of Fabchem China Limited (“**Fabchem**” or the “**Company**”) which are held through The Central Depository (Pte) Limited (“**CDP**”), you need not forward this Circular, the Notice of Extraordinary General Meeting and the attached Proxy Form to the purchaser or transferee, as CDP will arrange for a separate Circular and accompanying documents to be sent to the purchaser or transferee. If you have sold or transferred all your shares in the Company which are not held through CDP, you should immediately hand this Circular, the Notice of Extraordinary General Meeting and the attached Proxy Form to the purchaser or transferee or to the bank, stockbroker or agent through whom you effected the sale or transfer, for onward transmission to the purchaser or transferee.

The Singapore Exchange Securities Trading Limited assumes no responsibility for the correctness of any statements made or opinions expressed or reports contained in this Circular.



FABCHEM CHINA LIMITED

(Incorporated in the Republic of Singapore on 12 October 2004)
(Company Registration Number: 200413128G)

CIRCULAR TO SHAREHOLDERS

IN RELATION TO

THE PROPOSED SHAREHOLDERS’ MANDATE FOR INTERESTED PERSON TRANSACTIONS

Independent Financial Adviser to the Independent Directors of the Company



PROVENANCECAPITAL

PROVENANCE CAPITAL PTE. LTD.

(Incorporated in the Republic of Singapore)
(Company Registration Number: 200309056E)

IMPORTANT DATES AND TIMES

- Last date and time for lodgement of Proxy Form : 23 July 2014 at 10.30 a.m.
- Date and time of Extraordinary General Meeting : 25 July 2014 at 10.30 a.m. (or such time immediately following the conclusion or adjournment of the annual general meeting of the Company on the same day and at the same place)
- Place of Extraordinary General Meeting : 2 Bukit Merah Central,
Level 1 Drucker/Juran Boardroom,
Singapore 159835

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DEFINITIONS

In this Circular, the following definitions apply throughout unless otherwise stated:-

Companies, Organisations and Agencies

“CDP”	:	The Central Depository (Pte) Limited
“Fabchem” or the “Company”	:	Fabchem China Limited
“Group”	:	Fabchem and its subsidiaries as at the Latest Practicable Date, namely Yinguang Technology and Hebei Yinguang
“Hebei Yinguang”	:	Hebei Yinguang Chemical Co., Ltd, a wholly-owned subsidiary of Yinguang Technology
“Minbao Group”	:	Yinguang Minbao, Yinguang Commercial Explosives and their respective Associates (and also the latter’s Associates for the purposes of the Proposed IPT Mandate) as at the date of this Circular and thereafter from time to time
“Provenance Capital” or “IFA”	:	Provenance Capital Pte. Ltd., the independent financial adviser to the Independent Directors in relation to the Proposed IPT Mandate
“SGX-ST”	:	Singapore Exchange Securities Trading Limited
“Yinguang Chemical Group”	:	Shandong Yinguang Chemical Group Co., Ltd
“Yinguang Commercial Explosives”	:	Shandong Yinguang Commercial Explosives Sales and Services Co., Ltd
“Yinguang Minbao”	:	Shandong Yinguang Minbao Qicai Co., Ltd
“Yinguang Technology”	:	Shandong Yinguang Technology Co., Ltd, a wholly-owned subsidiary of the Company

General

“Associate”	:	This term shall have the same meaning as ascribed to it in the SGX-ST Listing Manual, as amended from time to time
“AGM”	:	The annual general meeting of the Company
“Audit Committee”	:	The audit committee of the Company, consisting of Wee Phui Gam, Ong Tai Tiong Desmond and Dr Lim Seck Yeow
“Board”	:	The board of Directors of the Company as at the Latest Practicable Date
“Circular”	:	This Circular to Shareholders dated 10 July 2014

“Companies Act”	: The Companies Act, Chapter 50 of Singapore as amended, supplemented or modified from time to time
“Directors”	: The directors of the Company as at the Latest Practicable Date
“EGM”	: The extraordinary general meeting of the Shareholders to be convened for the purposes of considering and, if thought fit, passing the resolution set out in the Notice of EGM set out on page 27 of this Circular
“FY”	: Financial year of the Company ended or ending 31 March
“IFA Letter”	: Provenance Capital’s letter to the Independent Directors, as set out in the Appendix to this Circular
“Independent Directors”	: The Directors of the Company who are deemed to be independent in respect of and for the purpose of the Proposed IPT Mandate, namely, Dr Lim Seck Yeow, Frankie Manuel Micallef, Simon Hunter Atkinson, Ong Tai Tiong Desmond, Jiang Rongguang, and Wee Phui Gam
“Interested Person(s)”	: The interested person(s) of the Company who fall within the Proposed IPT Mandate, as set out in Section 3.5 (<i>Classes of Interested Persons</i>) of this Circular, namely each of the entities within the Minbao Group
“Interested Person Transactions”	: The categories of transactions with the Interested Person(s) which fall within the Proposed IPT Mandate, as set out in Section 3.5 (<i>Classes of Interested Persons</i>) of this Circular, namely the Product Sales
“Proposed IPT Mandate”	: The proposed Shareholders’ general mandate to be obtained by the Company at the EGM pursuant to Chapter 9 of the Listing Manual, details of which are set out in Section 3 (<i>The Proposed IPT Mandate</i>) of this Circular permitting the Group, to enter into Interested Person Transactions, provided that such transactions are on an arm’s length basis, on normal commercial terms and will not be prejudicial to the interests of the Company and its minority Shareholders
“Latest Practicable Date”	: 30 June 2014, being the latest practicable date prior to the printing of this Circular
“Listing Manual”	: The listing manual of the SGX-ST as amended from time to time
“Notice of EGM”	: The notice of the EGM as set out on page 27 of this Circular
“NTA”	: Net tangible assets
“Ordinary Resolution”	: The ordinary resolution as set out in the Notice of EGM

“PRC”	:	People’s Republic of China
“Products”	:	Has the meaning ascribed to it in Section 3.2 (<i>Introduction</i>) of this Circular
“Product Sales”	:	Has the meaning ascribed to it in Section 3.2 (<i>Introduction</i>) of this Circular
“Securities Accounts”	:	Securities accounts maintained by a Depositor with CDP but does not include securities sub-accounts
“Shareholders”	:	Registered holders of Shares, except that where the registered holder is the CDP, the term “Shareholders” shall, in relation to such Shares, mean the persons whose direct Securities Accounts maintained with the CDP are credited with the Shares
“Shares”	:	Ordinary shares in the share capital of the Company

Currencies, Units of Measurements and Others

“RMB”	:	Renminbi, the lawful currency of the People’s Republic of China
“S\$” or “SGD” and “cents”	:	Singapore dollars and cents respectively, the lawful currency of the Republic of Singapore
“%”	:	Per centum or percentage

The terms “**Depositor**” and “**Depository Register**” shall have the meanings ascribed to them respectively in Section 130A of the Companies Act.

Words importing the singular shall, where applicable, include the plural and *vice versa*. Words importing the masculine gender shall, where applicable, include the feminine and neuter genders. References to persons shall include corporations.

Any reference in this Circular to any enactment is a reference to that enactment as for the time being amended or re-enacted. Any word defined under the Companies Act or the Listing Manual or any statutory modification thereof and not otherwise defined in this Circular shall have the same meaning assigned to it under the Companies Act or the Listing Manual or any statutory modification thereof, as the case may be.

Any reference to a time of day in this Circular is made by reference to Singapore time unless otherwise stated.

Any discrepancies in tables included herein between the amounts listed and the totals thereof are due to rounding. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures that precede them.

LETTER TO SHAREHOLDERS

FABCHEM CHINA LIMITED

(Incorporated in the Republic of Singapore on 12 October 2004)
(Company Registration Number: 200413128G)

Board of Directors:

Dr Lim Seck Yeow (*Non-Executive Chairman*)
Sun Bowen (*Managing Director*)
Bao Hongwei (*Executive Director and General Manager*)
Frankie Manuel Micallef (*Non-Executive Director*)
Simon Hunter Atkinson (*Non-Executive Director*)
Ong Tai Tiong Desmond (*Lead Independent Director*)
Wee Phui Gam (*Independent Director*)
Professor Jiang Rongguang (*Independent Director*)

Registered Office:

80 Robinson Road
#02-00
Singapore 068898

Date: 10 July 2014

To: The Shareholders of Fabchem China Limited

Dear Sir/Madam

THE PROPOSED SHAREHOLDERS' MANDATE FOR INTERESTED PERSON TRANSACTIONS

1 INTRODUCTION

- 1.1 The Directors are convening the EGM to seek Shareholders' approval for the adoption of the Proposed IPT Mandate in respect of future transactions that the Group may enter into with the Minbao Group, as detailed in Section 3 (*The Proposed IPT Mandate*) below.
- 1.2 The purpose of this Circular is to explain the reasons for, and to provide Shareholders with information relating to, the proposal to be tabled at the EGM.

2 CHAPTER 9 OF THE LISTING MANUAL

Under Chapter 9 of the Listing Manual, where a listed company or any of its subsidiaries or associated companies that are defined as an "entity at risk" proposes to enter into a transaction with an "interested person", an immediate announcement or an immediate announcement and shareholders' approval is required in respect of that transaction if its value is equal to, or more than, certain financial thresholds.

In particular, an immediate announcement is required where:

- (a) the transaction is of a value equal to, or more than, 3% of the group's latest audited NTA; or
- (b) the aggregate value of all transactions entered into with the same interested person during the same financial year amounts to 3% or more of the group's latest audited NTA.

Further, shareholders' approval (in addition to an immediate announcement) is required where:

- (a) the transaction is of a value equal to, or more than, 5% of the group's latest audited NTA; or
- (b) the transaction, when aggregated with other transactions entered into with the same interested person during the same financial year, is of a value equal to, or more than, 5% of the group's latest audited NTA.

The above requirements for immediate announcement and/or for shareholders' approval do not apply to any transaction below S\$100,000, and certain transactions which, by reason of the nature of such transactions, are not considered to put the listed company at risk to its interested person and hence excluded from the ambit of Chapter 9 of the Listing Manual.

Rule 920 of the Listing Manual permits a listed company to seek a general mandate from its shareholders for recurrent transactions of a revenue or trading nature or those necessary for its day-to-day operations such as the purchase and sale of supplies and materials (but not in respect of the purchase or sale of assets, undertakings or businesses) that may be carried out with the listed company's interested persons. A general mandate is also subject to annual renewal.

2.1 Definitions under Chapter 9

The following terms are defined under Chapter 9 of the Listing Manual:

- (a) the term "approved exchange" means a stock exchange that has rules which safeguard the interests of shareholders against interested person transactions according to similar principles to Chapter 9;
- (b) the term "entity at risk" means:
 - (i) the listed company;
 - (ii) a subsidiary of the listed company that is not listed on the SGX-ST or an approved exchange; or
 - (iii) an associated company of the listed group that is not listed on the SGX-ST or an approved exchange, provided that the listed group, or the listed group and its interested person(s) has control over the associated company;
- (c) an "associate":
 - (i) in relation to any director, chief executive officer, or controlling shareholder (being an individual) means (i) his immediate family; (ii) the trustees of any trust of which he or his immediate family is a beneficiary or, in the case of a discretionary trust, is a discretionary object; and (iii) any company in which he and his immediate family together (directly or indirectly) have an interest of 30.0% or more; and
 - (ii) in relation to a controlling shareholder (being a company) means any other company which is its subsidiary or holding company or is a subsidiary of such holding company or one in the equity of which it and/or such other company or companies taken together (directly or indirectly) have an interest of 30.0% or more; and
- (d) an "interested person" is defined as a director, chief executive officer or controlling shareholder of the listed company or an associate of any such director, chief executive officer or controlling shareholder.

3 THE PROPOSED IPT MANDATE

3.1 General and Background Information

At an extraordinary general meeting of the Company held on 22 September 2008, the Shareholders had, *inter alia*, granted an interested person transaction mandate to enable the Group to enter in the ordinary course of business into the sale of the Group's explosive-grade ammonium nitrate to certain specified interested persons namely, Shandong Yinguang Qianfeng Chemical Co., Ltd ("**Qianfeng**") and Tai'an Yinguang Xinhua Chemical Co., Ltd ("**Xinhua**"). At the annual general meetings of the Company held on 27 July 2009 and 22 July 2010, approvals of the shareholders were obtained for, *inter alia*, the renewals of the said interested person transaction mandate. The same interested person transaction mandate was last renewed at the annual general meeting of the Company held on 12 July 2011 and the Company has since not renewed the Proposed IPT Mandate. The businesses of Qianfeng and Xinhua were subsequently sold to and acquired by Yinguang Chemical Group, which later incorporated Yinguang Minbao and consolidated the said businesses under Yinguang Minbao. Thereafter Qianfeng and Xinhua were deregistered.

The Group also sells and supplies Initiation Systems Products (defined below) to Yinguang Commercial Explosives, a subsidiary of Yinguang Minbao, in the ordinary course of business of the Group.

In the aforesaid circumstances, the Company intends to seek a fresh mandate from Shareholders details of which are as described below.

3.2 Introduction

The Company is one of the leading manufacturers of initiation systems in China. Our products include explosive devices (boosters), industrial fuse and initiating explosive devices (detonating cords and non-electric tubes), industrial detonators (piston non-electric detonators) (collectively "**Initiation Systems Products**") as well as explosive-grade ammonium nitrate and its by-products ("**AN Products**") which is one of the main raw materials for the manufacture of explosives (the Initiation Systems Products and AN Products, collectively referred to as our "**Products**"). Our Products are widely used in the mining, energy exploration, hydroelectric and infrastructure construction sectors. The Group's operations are carried out via Yinguang Technology and Hebei Yinguang in China.

From time to time, there are transactions between the Group and the Minbao Group. Such transactions currently comprise the sales of the Group's AN Products and Initiation Systems Products to the Minbao Group namely, Yinguang Minbao and Yinguang Commercial Explosives respectively in the ordinary course of business of the Group (collectively "**Product Sales**").

The Company wishes to seek the approval of the Shareholders (which shall exclude Shareholders who are required to abstain from voting pursuant to Rule 919 and Rule 920(1)(b)(viii) of the Listing Manual) for the adoption of the Proposed IPT Mandate in respect of future Product Sales which the Group may enter into with the Minbao Group.

3.3 Rationale for the Proposed IPT Mandate

It is envisaged that the Group will in its ordinary course of business continue to enter into Product Sales with the Interested Person of such aggregate value that requires our Shareholders' approval pursuant to Chapter 9 of the Listing Manual. Such transactions are recurring transactions that are likely to occur with some degree of frequency and are part of the day-to-day operations of the Group, and could arise at any time. Given that the Product Sales are of a revenue nature primarily and are expected to be recurrent and occur at any time, and due to the time-sensitive nature of these transactions, to allow the Group to undertake such transactions in a more expeditious manner, our Directors are seeking the approval of our Shareholders for the Proposed IPT Mandate in respect of the Product Sales for the purposes of Chapter 9 of the Listing Manual and for our Group to enter into the Product Sales, provided that such transactions are made on normal commercial terms, are in the interests of our Company and are not prejudicial to the interests of our Company and our minority Shareholders.

The nature and scope of transactions which are proposed to be covered under the Proposed IPT Mandate are detailed in Section 3.5 (*Classes of Interested Persons*) below.

3.4 Benefit to the Group

The Proposed IPT Mandate will eliminate the need for the Company to announce, or to announce and convene separate general meetings on each occasion to seek Shareholders' prior approval for the entry by the relevant entity in the Group into such Interested Person Transactions (as described in Section 3.6 (*Nature and Scope of the Interested Person Transactions*) below. This will substantially reduce the expenses associated with the convening of general meetings (including the engagement of external advisers and preparation of documents) on an *ad hoc* basis, improve administrative efficiency and efficacy considerably, and allow manpower resources and time to be channelled towards attaining other business objectives available to the Company.

The Proposed IPT Mandate is intended to facilitate Interested Person Transactions in the normal course of business of the Group, which are recurrent in nature or necessary for the day-to-day operations of the Group, and which may be transacted from time to time with the Interested Persons, provided that they are carried out on an arm's length basis and on normal commercial terms, and are not prejudicial to the interests of the Company and its minority Shareholders.

3.5 Classes of Interested Persons

The Proposed IPT Mandate will apply to Interested Person Transactions which are carried out between the Group and the Minbao Group. Further details of the Interested Persons are set out in the following sections.

3.5.1 Yinguang Minbao

- (a) Mr Sun Bowen is the managing director and a controlling shareholder of the Company. As at the Latest Practicable Date, he has a deemed interest of approximately 32.35% of the issued and paid-up share capital of the Company.

Mr Bao Hongwei is the Executive Director of the Company and he holds approximately 2.05% and has a deemed interest of approximately 3.68% of the issued and paid-up share capital of the Company.

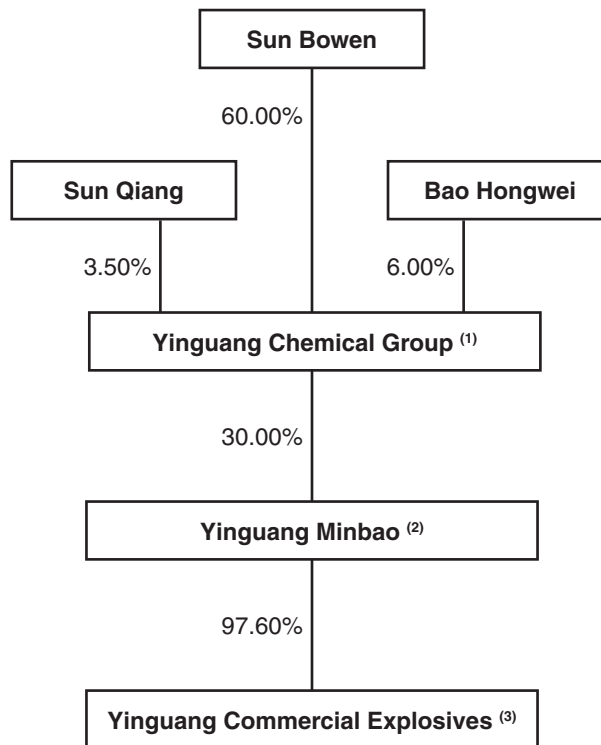
Further details of their respective shareholding are set out in Section 4 (*Directors' and Substantial Shareholders' Interests*).

- (b) As at the Latest Practicable Date:
- (i) Each of Mr Sun Bowen and Mr Bao Hongwei has an aggregate 60.0% and 6.0% of the issued and paid-up share capital of Yinguang Chemical Group. Mr Sun Bowen and Mr Bao Hongwei are also directors of Yinguang Chemical Group.
 - (ii) Yinguang Chemical Group in turn holds an aggregate interest of 30.0% in Yinguang Minbao. Neither Mr Sun Bowen nor Mr Bao Hongwei is a director of Yinguang Minbao.
 - (iii) Mr Sun Qiang, who is the son of Mr Sun Bowen and also the sales and marketing manager of the Company, is a non-executive director of Yinguang Minbao and also holds approximately 3.5% of the issued and paid-up share capital of Yinguang Chemical Group.
- (c) Pursuant to Chapter 9 of the Listing Manual, Yinguang Minbao is an indirect Associate of the Directors and controlling and substantial shareholders respectively of the Company namely, Mr Sun Bowen and Mr Bao Hongwei, and is therefore deemed to be an interested person. Accordingly, transactions entered into between the Group and Yinguang Minbao would be Interested Person Transactions, and subject to Chapter 9 of the Listing Rules.

3.5.2 Yinguang Commercial Explosives

- (a) As described in Section 3.5.1 above, Yinguang Chemical Group holds an aggregate interest of 30.0% in Yinguang Minbao. As at the Latest Practicable Date, Yinguang Minbao in turn holds an aggregate interest of approximately 97.6% in Yinguang Commercial Explosives.
- (b) Neither Mr Sun Bowen nor Mr Bao Hongwei is a director of Yinguang Commercial Explosives as at the Latest Practicable Date.
- (c) By virtue of Mr Sun Bowen and Mr Bao Hongwei's shareholdings in Yinguang Chemical Group which holds an aggregate interest of 30.0% in Yinguang Minbao which in turn holds an aggregate interest of approximately 97.6% in Yinguang Commercial Explosives, Yinguang Commercial Explosives is an indirect Associate of the Directors and controlling and substantial shareholders respectively of the Company namely, Mr Sun Bowen and Mr Bao Hongwei, and is therefore deemed to be an interested person. Accordingly, transactions entered into between the Group and Yinguang Commercial Explosives would be Interested Person Transactions, and subject to Chapter 9 of the Listing Rules.

3.5.3 A diagrammatic representation of the Interested Persons described above is set out below:



Notes:

- (1) Other subsidiaries and/or associated companies of Yinguang Chemical Group are excluded for the purposes of this Circular.
- (2) As at the Latest Practicable Date, the remaining shareholdings in Yinguang Minbao are held by an unrelated third party.
- (3) As at the Latest Practicable Date, the remaining shareholdings in Yinguang Commercial Explosives are held by an unrelated third party.

3.6 Nature and Scope of the Interested Person Transactions

3.6.1 Interested Person Transactions with Yinguang Minbao

Yinguang Minbao is principally engaged in the business of manufacturing and sales of ammonium nitrate fuel oils (“ANFO”) explosives and emulsion explosives in the PRC.

The Group, through Hebei Yinguang, sells AN Products in its ordinary course of business to Yinguang Minbao for the manufacturing of ANFO and emulsion explosives. Yinguang Minbao adopts an open bidding process to purchase ammonium nitrate from its suppliers. Hebei Yinguang would submit their bid at such bidding exercises.

The Group’s Interested Person Transactions with Yinguang Minbao in respect of the sale of AN Products commenced in FY2012. The following table sets out the total purchases of AN Products by Yinguang Minbao from Hebei Yinguang for FY2014 and for the period from 1 April 2014 to the Latest Practicable Date:

FY2014	Transactions with Yinguang Minbao for AN Products	As a % of 31 March 2013’s NTA ⁽¹⁾ of RMB 455,574,000
	(RMB’000)	(%)
All transactions including transactions below S\$100,000 each	19,292	4.23
All transactions each of a value of S\$100,000 and above	13,643	2.99
1 April 2014 to the Latest Practicable Date	Transactions with Yinguang Minbao for AN Products	As a % of 31 March 2014’s NTA ⁽²⁾ of RMB 389,813,000
	(RMB’000)	(%)
All transactions including transactions below S\$100,000 each	5,018	1.29
All transactions each of a value of S\$100,000 and above	2,586	0.66

Notes:

(1) Based on audited financials for the financial year ended 31 March 2013.

(2) Based on audited financials for the financial year ended 31 March 2014.

3.6.2 Interested Person Transactions with Yinguang Commercial Explosives

Yinguang Commercial Explosives is principally engaged in the business of trading of commercial explosives products which include initiation system products.

Through Yinguang Technology, the Group sells Initiation Systems Products to Yinguang Commercial Explosives.

The Group's Interested Person Transactions with Yinguang Commercial Explosives in respect of the sale of Initiation Systems Products commenced in FY2009. The following table sets out the total purchases of Initiation Systems Products by Yinguang Commercial Explosives from Yinguang Technology for FY2014 and for the period from 1 April 2014 to the Latest Practicable Date:

FY2014	Transactions with Yinguang Commercial Explosives for Initiation Systems Products	As a % of 31 March 2013's NTA ⁽¹⁾ of RMB 455,574,000
	(RMB'000)	(%)
All transactions including transactions below S\$100,000 each	6,134	1.35
All transactions each of a value of S\$100,000 and above	–	–
1 April 2014 to the Latest Practicable Date	Transactions with Yinguang Commercial Explosives for Initiation Systems Products	As a % of 31 March 2014's NTA ⁽²⁾ of RMB 389,813,000
	(RMB'000)	(%)
All transactions including transactions below S\$100,000 each	1,154	0.29
All transactions each of a value of S\$100,000 and above	–	–

Notes:

(1) Based on audited financials for the financial year ended 31 March 2013.

(2) Based on audited financials for the financial year ended 31 March 2014.

3.6.3 The Interested Person Transactions which will be covered by the Proposed IPT Mandate are all Product Sales by the Group to the Minbao Group, in particular the transactions described above. These Interested Person Transactions are in the ordinary course of business of the Group, recurrent transactions of a revenue nature primarily and which are part of the Group's day-to-day operations.

For the avoidance of doubt, there will be no sale or purchase of any assets, undertakings or businesses within the scope of the Proposed IPT Mandate. The Proposed IPT Mandate will also not cover any transaction by any member of the Group with an Interested Person that is below S\$100,000 in value as the threshold and aggregation requirements of Chapter 9 of the Listing Manual would not apply to such transactions. In addition, transactions with other interested persons (other than the classes of Interested Persons detailed at Section 3.5 (*Classes of Interested Persons*) above) that do not fall within the ambit of the Proposed IPT Mandate will be subject to the relevant provisions of Chapter 9 of the Listing Manual and/or other applicable provisions of the Listing Manual.

3.7 Guidelines and Review Procedures for Interested Person Transactions

(a) Review Procedures

Having regard to the nature of the Interested Person Transactions, and the criteria in establishing the review procedures which is to ensure that the Interested Person Transactions are conducted on normal commercial terms, are in the interests of the Company and are not prejudicial to the interests of the Company and the minority Shareholders, the following review procedures will be implemented:

- (i) the sales personnel and/or general manager will submit the recommendation to undertake the transaction for approval to the head of finance (China operations) and a Director (who is not considered an “interested person” within the meaning of Chapter 9 of the Listing Manual or his Associates), both of whom have no interest, directly or indirectly in the transaction. The head of finance (China operations) and the Director will obtain comparable market prices, contemporaneous in time. The selling prices and terms of at least two other successful Product Sales of similar nature by the Group to non-interested third parties will be used as comparison. The selling prices quoted or submitted at bidding exercises (as the case may be) shall not be lower than the lowest selling price of the other transactions with non-interested third parties;
- (ii) the transactions will be entered into with the Interested Persons on terms which are no more favourable to the Interested Persons than the usual commercial terms extended to or by (as the case may be) non-interested third parties, after taking into account, if applicable, factors such as (but not limited to) the nature of the product, delivery schedules, order quantity, foreign exchange rates, customer requirements and specifications, duration of contract, preferential rates, discounts or rebates for bulk purchases, and cost for freight. The Group will not proceed with any transaction with an Interested Person if it results in a gross loss (i.e. after deducting cost of sales) to the Group at the point of transaction; and
- (iii) in relation to any Product Sales to the Interested Persons where it is impractical or impossible to compare our selling prices to unrelated third parties for similar products, the transaction price will be determined in accordance with our Group’s usual business practices and pricing policies (including our profit margin policies) for the same or substantially similar type of products sold to unrelated third parties or in accordance with industry norms (as the case may be). In determining the transaction price, factors such as, but not limited to, the nature of the product, delivery schedules, order quantity, foreign exchange rates, customer requirements and specifications, duration of contract, preferential rates, discounts or rebates for bulk purchases, and cost for freight will be taken into account. The Group will not proceed with any transaction with an Interested Person if it results in a gross loss (i.e. after deducting cost of sales) to the Group at the point of transaction.

(b) Additional Review Procedures

- (i) Chapter 9 of the Listing Manual does not require transactions below S\$100,000 each to be included under the Proposed IPT Mandate. However, our Audit Committee will review, on a quarterly basis, all Product Sales, including those that are below S\$100,000 each.
- (ii) A threshold limit of RMB 1.0 million for each Interested Person Transaction (the “**Threshold Limit**”) will be applied. The Threshold Limit has been set and is regarded as reasonable by the Independent Directors of the Company (deemed independent for the purpose of the Proposed IPT Mandate) based on (i) the anticipated value of potential Product Sales that the Group may enter into with the Interested Persons and (ii) the review procedures set out above in Section 3.7(a) (*Review Procedures*) and including the various approval limits to be implemented for such Product Sales as set out below in this Section 3.7(b) (*Additional Review Procedures*).

- (iii) Where the value of a Product Sale equals to or exceeds the Threshold Limit, such transaction must be reviewed and approved by the Audit Committee of the Company prior to the Group entering into such a transaction.
- (iv) The Audit Committee may, if it deems fit, request for additional information pertaining to the Product Sale transaction from independent sources or advisors, including the obtaining of valuations from independent professional valuers.
- (v) Where the value of a Product Sale is less than the Threshold Limit, such transaction does not require the Audit Committee's prior approval. However, these transactions with a value equivalent to or greater than S\$100,000 each will be reviewed on a quarterly basis by the Audit Committee to ensure that they are conducted on normal commercial terms and in accordance with the review procedures outlined above. All relevant non-quantitative factors such as (but not limited to) the nature of the products and prevailing market conditions will also be taken into consideration.

Each Product Sale will be monitored as an individual transaction and, based on the value of the transaction, will require the prior approval of the corresponding approving authority who is a Director or a management employee of the Group (not being an "interested person" within the meaning of Chapter 9 of the Listing Manual or his Associates) as follows:

Approval Limits	Relevant Approving Authority
Transactions equal to or more than S\$100,000 (equivalent to approximately RMB 0.5 million as at the Latest Practicable Date) but less than the Threshold Limit of RMB 1.0 million	1 Director and the head of finance (China operations)
Transactions equal to or more than the Threshold Limit of RMB 1.0 million	Audit Committee

(c) **Register of Interested Person Transactions**

Each Product Sale will be properly documented and our Company will maintain a register of all such Interested Person Transactions entered into with the Interested Persons ("**IPT Register**"). The head of finance (China Operations) (not being an "interested person" within the meaning of Chapter 9 of the Listing Manual or his Associates) will ensure that the IPT Register is properly updated.

The Interested Person Transactions that are below S\$100,000 in value each will not be subject to the review procedures set out in Section 3.7(a) (*Review Procedures*) above. However, Interested Person Transactions that are below S\$100,000 in value each will be recorded in the IPT Register and reflected in the accounting records of the Group.

(d) **Periodic Review**

- (i) Our Audit Committee will carry out reviews of all Product Sales of a value equivalent to or greater than S\$100,000 on a quarterly basis, and Product Sales of a value below S\$100,000 on a quarterly basis as well to (i) ensure that the established guidelines and review procedures for the Product Sales have been complied with and the relevant approvals have been obtained; and (ii) determine if such guidelines and review procedures are adequate and/or commercially practicable in ensuring that the Product Sales are conducted on normal commercial terms, are in the interest of our Company and are not prejudicial to the interests of our Company and our minority Shareholders.

- (ii) In the event that a member of our Audit Committee has an interest in any Product Sale under consideration, he will abstain from approving that particular Product Sale to ensure that it will be conducted on normal commercial terms. Approval of that particular Product Sales will accordingly be undertaken by the remaining members of our Audit Committee.
 - (iii) If, during these reviews, our Audit Committee is of the view that the above guidelines and review procedures have become inappropriate or have become insufficient to ensure that the Product Sales will be conducted on normal commercial terms, are in the interest of our Company and are not prejudicial to the interests of our Company and our minority Shareholders, our Company will seek a fresh mandate from our Shareholders based on new guidelines and review procedures for transactions with the Interested Persons. During the period prior to obtaining a fresh mandate from Shareholders, all Product Sales will be subject to prior review and approval by our Audit Committee.
- (e) **Review by Internal Auditors**
- The Group shall incorporate into its internal audit plan a review by the internal auditors on a quarterly basis for all Interested Person Transactions entered into by the Group pursuant to the Proposed IPT Mandate to ensure that the relevant approvals have been obtained and the review procedures in respect of such transactions have been adhered to. The review report by the internal auditors on the Interested Person Transactions will be forwarded to the Audit Committee.
- (f) **Review by External Auditors**
- As part of the Group's annual audit, external auditors will review the Interested Person Transactions on a sampling basis. The external auditors will report to the Audit Committee in the event of any non-compliance based on the audit sample.
- (g) **Review by Directors**
- Our Board will ensure that all disclosure, approval and other requirements on the Interested Person Transactions, including those required by prevailing legislation, the Listing Manual and accounting standards, are complied with.

3.8 Validity Period of the Proposed IPT Mandate

The Proposed IPT Mandate is subject to Shareholders' approval at the EGM. If approved by the Shareholders at the EGM, the Proposed IPT Mandate will take effect from the passing of the Ordinary Resolution, and will (unless revoked or varied by the Company in general meeting) continue in force until the next AGM. Approval from the Shareholders will be sought for the renewal of the Proposed IPT Mandate at the next AGM and at each subsequent AGM, subject to satisfactory review by the Audit Committee of its continued application to the transactions with the Interested Persons.

3.9 Disclosure in the Annual Report

Pursuant to Rule 920(1)(a) of the Listing Manual:

- (i) the Company will announce the aggregate value of transactions conducted with the Interested Persons pursuant to the Proposed IPT Mandate for the relevant financial periods which the Company is required to report on pursuant to Rule 705 of the Listing Manual and within the time required for the announcement of such reports.
- (ii) disclosure will also be made in the Company's annual report of the aggregate value of transactions conducted with the Interested Persons pursuant to the Proposed IPT Mandate during the financial year, and in the annual reports for subsequent financial years that the Proposed IPT Mandate continues in force, in accordance with the requirements of Chapter 9 of the Listing Manual.

- (iii) the name of the Interested Person and the corresponding aggregate value of the Interested Person Transactions will be presented in the following format (pursuant to Rule 907 of the Listing Manual):

Name of Interested Person	Aggregate value of all interested person transactions during the financial year under review (excluding transactions less than \$100,000 and transactions conducted under Shareholders' mandate pursuant to Rule 920 of the Listing Manual)	Aggregate value of all interested person transactions conducted under the Proposed IPT Mandate
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Due to the frequency and the nature of the Interested Person Transactions under the Proposed IPT Mandate, for good governance, the Company will report all Interested Person Transactions (including transactions of less than S\$100,000 each), should the Ordinary Resolution in respect of the same be passed at the forthcoming EGM.

4 DIRECTORS' AND SUBSTANTIAL SHAREHOLDERS' INTERESTS

The interests of the Directors and substantial Shareholders in the Shares as at the Latest Practicable Date are set out below:

Name of Director/Substantial Shareholder	Direct interest		Deemed interest	
	No. of Shares	%	No. of Shares	%
Directors				
Sun Bowen ⁽¹⁾	–	–	75,700,000	32.35
Bao Hongwei ⁽²⁾	4,788,000	2.05	8,604,000	3.68
Dr Lim Seck Yeow ⁽³⁾	–	–	18,334,000	7.84
Frankie Manuel Micallef ⁽⁴⁾	–	–	–	–
Simon Hunter Atkinson ⁽⁵⁾	–	–	–	–
Ong Tai Tiong Desmond	–	–	–	–
Wee Phui Gam	–	–	–	–
Jiang Rongguang	–	–	–	–
Substantial Shareholders				
Fortsmith Investments Limited	75,700,000	32.35	–	–
DNX Australia Pty Limited	69,966,000	29.90	–	–
Fivestar Limited	18,334,000	7.84	–	–
Lombard Inc.	8,604,000	3.68	–	–
Tan Geok Bee ⁽⁶⁾	4,231,000	1.81	18,334,000	7.84
Bao Hongwei ⁽²⁾	4,788,000	2.05	8,604,000	3.68

Notes:

- (1) Mr Sun Bowen is deemed to be interested in the shares held by Fortsmith Investments Limited by virtue of Section 7 of the Companies Act.
- (2) Mr Bao Hongwei is deemed to be interested in the shares held by Lombard Inc. by virtue of Section 7 of the Companies Act.
- (3) Dr Lim Seck Yeow is deemed to be interested in the shares held by Fivestar Limited by virtue of Section 7 of the Companies Act.
- (4) Mr Frankie Manuel Micallef is a nominee director of DNX Australia Pty Limited.
- (5) Mr Simon Hunter Atkinson is a nominee director of DNX Australia Pty Limited.
- (6) Mdm Tan Geok Bee is deemed to be interested in the shares held by Fivestar Limited by virtue of Section 7 of the Companies Act.

Save as disclosed above, none of the Directors or substantial Shareholders of the Company has any interest, direct or indirect, in the Proposed IPT Mandate.

5 INDEPENDENT FINANCIAL ADVISER'S OPINION

Provenance Capital has been appointed as the independent financial adviser to the Independent Directors to opine on whether the guidelines and review procedures for determining the terms of the Proposed IPT Mandate, if adhered to, are sufficient to ensure that the Interested Person Transactions will be carried out on normal commercial terms and will not be prejudicial to the interests of the Company and its minority Shareholders.

Having regard to the considerations set out in the IFA Letter, Provenance Capital is of the opinion that the adoption of the Proposed IPT Mandate and the guidelines and review procedures for determining the terms of the Proposed IPT Mandate as set out in Section 3 (*The Proposed IPT Mandate*) of this Circular, if adhered to, are sufficient to ensure that the Interested Person Transactions will be carried out on normal commercial terms and will not be prejudicial to the interests of the Company and its minority Shareholders.

The IFA Letter dated 10 July 2014 is reproduced and appended in the Appendix to this Circular.

Shareholders are advised to read the IFA Letter in full and consider it in the context of this Circular.

6 STATEMENT FROM THE AUDIT COMMITTEE

The Audit Committee has reviewed the guidelines and review procedures, as set out in Section 3.7 (*Guidelines and Review Procedures for Interested Person Transactions*) of this Circular, proposed by the Company for determining the terms of the Interested Person Transactions, and having also considered, *inter alia*, the terms, the rationale and the benefits of the Proposed IPT Mandate as set out in Section 3 (*The Proposed IPT Mandate*) of this Circular, the Audit Committee is satisfied that the guidelines and review procedures for the Interested Person Transactions, as well as the quarterly reviews to be made by the Audit Committee in relation thereto, are sufficient to ensure that the recurrent Interested Person Transactions will be carried out on normal commercial terms and will not be prejudicial to the interests of the Company and its minority Shareholders.

The Audit Committee has not taken a different view from the independent financial adviser's opinion as set out in Section 5 (*Independent Financial Adviser's Opinion*) above and the IFA Letter.

7 INDEPENDENT DIRECTORS' RECOMMENDATION

As both Mr Sun Bowen and Mr Bao Hongwei are deemed to be interested in the Proposed IPT Mandate, each of them will abstain from making any recommendations to the Shareholders to vote in favour of the resolution relating to the Proposed IPT Mandate. Accordingly, the Independent Directors (who are deemed to be independent for the purposes of making a recommendation to the Shareholders in respect of the Proposed IPT Mandate) are Dr Lim Seck Yeow, Simon Hunter Atkinson, Frankie Manuel Micallef, Ong Tai Tiong Desmond, Jiang Rongguang, and Wee Phui Gam. Save as disclosed herein, none of the Directors has any interest, direct or indirect, in the Proposed IPT Mandate.

Having fully considered the rationale for the Proposed IPT Mandate as set out in Section 3.3 (*Rationale for the Proposed IPT Mandate*) of this Circular and the advice of Provenance Capital in the IFA Letter, the Independent Directors are unanimously of the opinion that the Proposed IPT Mandate is in the best interests of the Company. The Independent Directors unanimously agree that the guidelines and review procedures for determining the terms of the Interested Person Transactions as stated in Section 3.7 (*Guidelines and Review Procedures for Interested Person Transactions*) of this Circular for Interested Person Transactions entered into pursuant to the Proposed IPT Mandate, as well as the quarterly reviews to be made by the Audit Committee in relation thereto, are sufficient to ensure that Interested Person Transactions made with the Minbao Group will be carried out on normal commercial terms and will not be prejudicial to the interests of the Company and its minority Shareholders.

Accordingly, the Independent Directors unanimously recommend that Shareholders vote in favour of the Ordinary Resolution relating to the Proposed IPT Mandate as set out in the Notice of EGM.

8 ABSTENTIONS FROM VOTING

In accordance with Rule 919, Rule 920(1)(b)(viii) and Rule 921(7) of the Listing Manual, Mr Sun Bowen and Mr Bao Hongwei, being the Interested Persons, will abstain, and have undertaken to ensure that their Associates will abstain, from voting on the resolution approving the Proposed IPT Mandate herein.

Further, Mr Sun Bowen and Mr Bao Hongwei undertake to decline, and shall ensure that their Associates shall decline, to accept appointment as proxies to vote at and attend the forthcoming EGM in respect of the resolution relating to the Proposed IPT Mandate for other Shareholders, unless the Shareholder concerned has given specific instructions as to the manner in which his votes are to be cast at the EGM.

9 THE EGM

The EGM, notice of which is set out on page 27 of this Circular, will be held on 25 July 2014 at 10.30 a.m. or such time immediately following the conclusion or adjournment of the AGM of the Company on the same day and at the same place, for the purpose of considering and, if thought fit, passing with or without any modifications, the resolution as set out in the Notice of EGM.

A Depositor shall not be regarded as a Shareholder entitled to attend the EGM and to speak and vote thereat unless he is shown to have Shares entered against his name in the Depository Register, as certified by CDP as at 48 hours before the EGM.

10 DIRECTORS' RESPONSIBILITY STATEMENTS

The Directors collectively and individually accept full responsibility for the accuracy of the information given in this Circular and confirm after making all reasonable enquiries that, to the best of their knowledge and belief, this Circular constitutes full and true disclosure of all material facts about the Proposed IPT Mandate, the issuer and its subsidiaries, and the Directors are not aware of any facts the omission of which would make any statement in this Circular misleading.

Where information in the Circular has been extracted from published or otherwise publicly available sources or obtained from a named source, the sole responsibility of the Directors has been to ensure that such information has been accurately and correctly extracted from those sources and/or reproduced in the Circular in its proper form and context.

11 ACTION TO BE TAKEN BY SHAREHOLDERS

If a Shareholder is unable to attend the EGM and wishes to appoint a proxy or proxies to attend and vote on his behalf, he should complete, sign and return the accompanying Proxy Form in accordance with the instructions printed thereon as soon as possible and, in any event, so as to reach the registered office of the Company at 80 Robinson Road #02-00, Singapore 068898, not less than 48 hours before the time appointed for holding the EGM. The completion and return of the Proxy Form by a Shareholder will not prevent him from attending and voting in person at the EGM if he subsequently wishes to do so.

12 CONSENT

Provenance Capital has given and has not withdrawn its written consent to the issue of this Circular with the inclusion of each of its name and the IFA Letter set out in the Appendix to this Circular and all references thereto in the form and context in which it appears in this Circular, and to act in such capacity in relation to this Circular.

13 DOCUMENTS AVAILABLE FOR INSPECTION

The following documents may be inspected at the registered office of the Company during normal office hours from the date hereof up to and including the date of the EGM:

- (a) the Memorandum and Articles of Association of the Company;
- (b) the Annual Report of Fabchem for FY2014;
- (c) the IFA Letter; and
- (d) the letter of consent from Provenance Capital.

Yours faithfully

For and on behalf of the Board
Fabchem China Limited

Dr Lim Seck Yeow
Non-Executive Chairman

APPENDIX - LETTER FROM PROVENANCE CAPITAL PTE. LTD. TO THE INDEPENDENT DIRECTORS OF FABCHEM CHINA LIMITED

PROVENANCE CAPITAL PTE. LTD.

(Company Registration Number: 200309056E)
(Incorporated in the Republic of Singapore)
96 Robinson Road #13-01 SIF Building
Singapore 068899

10 July 2014

To: The Independent Directors of Fabchem China Limited
(deemed to be independent in respect of the Proposed IPT Mandate)

Dr Lim Seck Yeow (Non-Executive Chairman)
Mr Frankie Manuel Micallef (Non-Executive Director)
Mr Simon Hunter Atkinson (Non-Executive Director)
Mr Ong Tai Tiong Desmond (Lead Independent Director)
Mr Wee Phui Gam (Independent Director)
Professor Jiang Rongguang (Independent Director)

Dear Sirs,

THE PROPOSED ADOPTION OF THE SHAREHOLDERS' GENERAL MANDATE FOR INTERESTED PERSON TRANSACTIONS

Unless otherwise defined or the context otherwise requires, all terms used herein have the same meanings as defined in the circular to the Shareholders of the Company dated 10 July 2014 (the "Circular").

1. INTRODUCTION

- 1.1 Fabchem China Limited ("**Fabchem**" or "**Company**") and its subsidiaries (collectively, "**Group**") is one of the leading manufacturers of initiation systems in the People's Republic of China ("**PRC**"). Its products include explosive devices (boosters), industrial fuse and initiating explosive devices (detonating cords and non-electric tubes), industrial detonators (piston non-electric detonators) (collectively "**Initiation Systems Products**") as well as explosive-grade ammonium nitrate and its by-products ("**AN Products**") which is one of the main raw materials for the manufacture of explosives (the Initiation Systems Products and AN Products, collectively referred to as "**Products**").
- 1.2 Fabchem's Products are widely used in the mining, energy exploration, hydroelectric and infrastructure construction sectors. The Group's operations are carried out via its wholly-owned subsidiaries Shandong Yinguang Technology Co., Ltd ("**Yinguang Technology**") and Hebei Yinguang Chemical Co., Ltd ("**Hebei Yinguang**") in the PRC.
- 1.3 At the extraordinary general meeting ("**EGM**") of the Company held on 22 September 2008, the Company sought and obtained Shareholders' approval for a general mandate for interested person transactions to enable the Company to enter into the sale of the Group's explosive-grade ammonium nitrate to certain specified interested persons namely, Shandong Yinguang Qianfeng Chemical Co., Ltd ("**Qianfeng**") and Tai'an Yinguang Xinhua Chemical Co., Ltd ("**Xinhua**"). This general mandate was subsequently renewed at the respective annual general meetings ("**AGM**") held in 2009, 2010 and 2011. However, the Company did not renew it during the AGM held in 2012 after considering the immateriality of the values of the amounts transacted. The businesses of Qianfeng and Xinhua were transferred to Shandong Yinguang Chemical Group Co., Ltd ("**Yinguang Chemical Group**") in 2009. Yinguang Chemical Group later incorporated Shandong Yinguang Minbao Qicai Co., Ltd ("**Yinguang Minbao**") and consolidated the businesses of Qianfeng and Xinhua under Yinguang Minbao. Thereafter, Qianfeng and Xinhua were deregistered. Yinguang Chemical Group holds an aggregate shareholding interest of 30.0% in Yinguang Minbao.

- 1.4 The Company is convening an EGM to seek the approval of the Shareholders of the Company for the proposed adoption of the Shareholders' general mandate ("**Proposed IPT Mandate**") in respect of future transactions that the Group may enter into in the ordinary course of business with Yinguang Minbao and its 97.6%-owned subsidiary, Shandong Yinguang Commercial Explosives Sales and Services Co., Ltd ("**Yinguang Commercial Explosives**") (collectively "**Minbao Group**").
- 1.5 Mr Sun Bowen is the Managing Director and a controlling shareholder of the Company. He has 60.0% shareholding interest in Yinguang Chemical Group where he is also a director. Mr Sun Qiang, who is the son of Mr Sun Bowen and also the sales and marketing manager of the Company, holds approximately 3.5% shareholding interest in Yinguang Chemical Group. Mr Sun Qiang is also a non-executive director of Yinguang Minbao.
- Mr Bao Hongwei is the Executive Director and a substantial shareholder of the Company. He has 6.0% shareholding interest in Yinguang Chemical Group where he is also a director.
- As such, the Minbao Group is an associate of Mr Sun Bowen and Mr Bao Hongwei, and therefore is deemed to be an interested person ("**Interested Person**"). Accordingly, transactions entered into between the Group and the Minbao Group will, pursuant to Chapter 9 of the Listing Manual, be considered as interested person transactions ("**Interested Person Transactions**").
- 1.6 Transactions between the Interested Persons and the Group are expected to occur on a recurrent basis and such transactions are of a revenue or trading nature in the ordinary course of business. Such transactions would fall within the Proposed IPT Mandate.
- 1.7 As required by Rule 906 of the Listing Manual, Shareholders' approval must be obtained for any Interested Person Transaction of a value which is equal to or more than 5% of the Group's latest audited net tangible assets ("**NTA**") or when aggregated with other Interested Person Transactions with the same Interested Person during the same financial year, the value is equal to or more than 5% of the Group's latest audited NTA. Based on the Group's latest audited NTA of approximately RMB 389.8 million as at 31 March 2014, the relevant 5% threshold would be approximately RMB 19.5 million. It is envisaged that the aggregate value of the Interested Person Transactions may exceed 5% of the above Group's NTA.
- 1.8 In connection with the above and in order to comply with the requirements of Chapter 9 of the Listing Manual, Provenance Capital Pte. Ltd. ("**Provenance Capital**") has been appointed as the independent financial adviser ("**IFA**") to advise and provide an opinion on whether the guidelines and review procedures for determining the terms of the Proposed IPT Mandate, if adhered to, are sufficient to ensure that the Interested Person Transactions will be carried out on normal commercial terms and will not be prejudicial to the interests of the Company and its minority Shareholders.
- 1.9 As at the Latest Practicable Date, the Audit Committee of the Company comprises Mr Wee Phui Gam, Mr Ong Tai Tiong Desmond, and Dr Lim Seck Yeow. The Directors who are deemed to be independent for the purposes of making a recommendation to the Shareholders in respect of the Proposed IPT Mandate are Dr Lim Seck Yeow, Mr Frankie Manuel Micallef, Mr Simon Hunter Atkinson, Mr Ong Tai Tiong Desmond, Mr Wee Phui Gam and Professor Jiang Rongguang ("**Independent Directors**").
- 1.10 This letter ("**Letter**") has been prepared for the use of the Independent Directors of the Company who is considered independent for the proposed adoption of the Proposed IPT Mandate and is to be incorporated into the Circular which provides, *inter alia*, the details of the Proposed IPT Mandate and the recommendation of the Independent Directors thereon.

2. TERMS OF REFERENCE

We have been appointed as the IFA to advise the Independent Directors on the Proposed IPT Mandate.

We are not and were not involved or responsible, in any aspect, of the discussions on the scope of the Proposed IPT Mandate nor were we involved in the deliberations leading up to the decision by the Directors to obtain the Proposed IPT Mandate or adopt the guidelines and review procedures for the Interested Person Transactions to ensure that the Proposed IPT Mandate will be carried out on normal commercial terms and will not be prejudicial to the interests of the Company and its minority Shareholders

It is not within our terms of reference to evaluate or comment on the legal, strategic, commercial and financial merits and/or risks of the Proposed IPT Mandate or to compare their relative merits *vis-à-vis* alternative transactions previously considered by the Company (if any) or that may otherwise be available to the Company currently or in the future, and we have not made such evaluation or comment. Such evaluation or comment, if any, remains the sole responsibility of the Directors and/or the management of the Company ("**Management**") although we may draw upon the views of the Directors and/or the Management or make such comments in respect thereof (to the extent deemed necessary or appropriate by us) in arriving at our opinion as set out in this Letter.

In rendering our opinion, we have held discussions with the Directors and the Management and/or their professional advisers and have examined and relied on publicly available information collated by us as well as information provided and representations made to us, both written and verbal, by the Directors, the Management and the professional advisers of the Company, including information contained in the Circular. We have not independently verified such information or representations, whether written or verbal, and accordingly cannot and do not make any representation or warranty, express or implied, in respect of, and do not accept any responsibility for the accuracy, completeness or adequacy of such information or representations.

The Directors (including those who may have delegated detailed supervision of the Circular) have confirmed that, having made all reasonable enquiries, to the best of their respective knowledge and belief, information and representations as provided by the Directors and Management are accurate and have confirmed to us that, upon making all reasonable enquiries and to their best knowledge and beliefs, all material information available to them in connection with the Proposed IPT Mandate, the Company and the Group have been disclosed to us, that such information is true, complete and accurate in all material respects and that there is no other information or fact, the omission of which would cause any information disclosed to us or the facts of or in relation to the Company or the Group stated in the Circular to be inaccurate, incomplete or misleading in any material respect. The Directors have jointly and severally accepted full responsibility for such information described herein.

We have not independently verified and have assumed that all statements of fact, belief, opinion and intention made by the Directors in the Circular in relation to the Proposed IPT Mandate have been reasonably made after due and careful enquiry. Whilst care has been exercised in reviewing the information on which we have relied on, we have not independently verified the information but nevertheless have made such reasonable enquiry and judgment as were deemed necessary and have found no reason to doubt the accuracy of the information and representations.

The scope of our appointment does not require us to conduct a comprehensive independent review of the business, operations or financial condition of the Company and/or the Group, or to express, and we do not express, a view on the future growth prospects, value and earnings potential of the Company and/or the Group. Such review or comment, if any, remains the responsibility of the Directors and the Management. We were also not required or authorised to obtain, and we have not obtained, any quotation or transaction price from third parties for the sale, purchase, provision or supply of services and/or products similar to those which are

to be covered by the Proposed IPT Mandate, and therefore are not able to, and will not compare the transactions with similar transactions with third parties.

Our opinion as set out in this Letter is based upon market, economic, industry, monetary and other conditions (if applicable) prevailing as of the Latest Practicable Date and the information provided and representations provided to us as of the Latest Practicable Date. In arriving at our opinion, with the consent of the Directors or the Company, we have taken into account certain other factors and have been required to make certain assumptions as set out in this Letter. We assume no responsibility to update, revise or reaffirm our opinion in light of any subsequent development after the Latest Practicable Date that may affect our opinion contained herein. Shareholders should further take note of any announcements relevant to Proposed IPT Mandate which may be released by the Company after the Latest Practicable Date.

We have prepared this Letter for the use of the Independent Directors in connection with their consideration of the Proposed IPT Mandate, and their advice to the Shareholders arising thereof. The recommendation made to the Shareholders in relation to the Proposed IPT Mandate remains the sole responsibility of the Independent Directors.

Our opinion in relation to the Proposed IPT Mandate should be considered in the context of the entirety of this Letter and the Circular.

3. THE PROPOSED IPT MANDATE

Details of the Proposed IPT Mandate are set out in Section 3 of the Circular. The following gives an overview for your ease of reference:

3.1 Classes of Interested Persons

The Interested Persons consist of the Minbao Group.

Please refer to Section 3.5 of the Circular for further information on the Interested Persons.

3.2 Nature and Scope of the Interested Person Transactions

The Proposed IPT Mandate will cover the following Interested Person Transactions which the Group has or will be entering into with the Interest Persons in the ordinary course of its business and on a recurrent basis which comprise the sales of the Group's AN Products and Initiation Systems Products to Yinguang Minbao and Yinguang Commercial Explosives respectively ("**Product Sales**").

(a) AN Product Sales to Yinguang Minbao

Yinguang Minbao is principally engaged in the business of manufacturing and sale of ammonium nitrate fuel oils ("**ANFO**") explosives and emulsion explosives in the PRC.

The Group, through Hebei Yinguang, sells AN Products in its ordinary course of business to Yinguang Minbao for the manufacturing of ANFO and emulsion explosives.

(b) Initiation Systems Products Sales to Yinguang Commercial Explosives

Yinguang Commercial Explosives is principally engaged in the business of trading of commercial explosive products which include initiation system products.

Through Yinguang Technology, the Group sells Initiation Systems Products in its ordinary course of business to Yinguang Commercial Explosives.

The Interested Person Transactions are recurrent transactions of a revenue or a trading nature, entered into in the ordinary course of business, and are necessary for the Group's day-to-day operations.

The Proposed IPT Mandate will not cover any transaction by any member in the Group with an Interested Person that is below S\$100,000 in value as the threshold and aggregation requirements of Chapter 9 of the Listing Manual would not apply to such transactions.

For the avoidance of doubt, there will be no sale or purchase of any assets, undertakings or businesses within the scope of the Proposed IPT Mandate.

Transactions with Interested Persons which do not fall within the ambit of the Proposed IPT Mandate shall remain subject to the requirements under Chapter 9 of the Listing Manual, in particular, Rules 905 and 906 of the Listing Manual.

Further details on the nature and scope of the Interested Person Transactions are set out in Section 3.6 of the Circular.

3.3 Rationale for the Proposed IPT Mandate and Benefits to the Group

The Directors believe that the Proposed IPT Mandate is beneficial to the Group and in view of the revenue and time-sensitive nature of the Interested Person Transactions, the Proposed IPT Mandate will enable the Group to expedite and increase the Product Sales without the need to convene separate general meetings for such Interested Person Transactions.

Further details on the rationale for the Proposed IPT Mandate and benefits to the Group are set out in Sections 3.3 and 3.4 of the Circular.

3.4 Guidelines and Review Procedures for the Interested Person Transactions

The full text of the guidelines and review procedures for the Interested Person Transactions is set out in Section 3.7 of the Circular.

These guidelines and review procedures in relation to the Proposed IPT Mandate have been put in place by the Company to ensure that the Interested Person Transactions are carried out on normal commercial terms and will not be prejudicial to the interests of the Company and its minority Shareholders.

A threshold limit of RMB 1.0 million for each Interested Person Transaction ("**Threshold Limit**") will be applied.

Each Product Sale of S\$100,000 (equivalent to approximately RMB 0.5 million as at Latest Practicable Date) or more but less than RMB 1.0 million will require the joint approval from one (1) Director (who is not considered an "interested person" within the meaning of Chapter 9 of the Listing Manual or his Associates) and the head of finance (China operations), both of whom have no interest, directly or indirectly in the transaction.

Product Sales of equal to or more than the Threshold Limit will require the approval from the Audit Committee of the Company prior to the Group entering into such a transaction.

The Interested Person Transactions that are below S\$100,000 each will not be subjected to the review procedures set out in Sections 3.7(a) and 3.7(b) of the Circular. However, Interested Person Transactions that are below S\$100,000 each will be recorded in the IPT Register and reflected in the accounting records of the Group.

The additional review procedures to supplement the above review procedures including: (i) periodic review by Audit Committee; (ii) review by internal auditors; (iii) review by external

auditors; and (iv) review by Directors, will also apply to the Interested Person Transactions.

3.5 Validity Period of the Proposed IPT Mandate

The Proposed IPT Mandate is subject to Shareholders' approval at the EGM. If approved by the Shareholders at the EGM, the Proposed IPT Mandate will take effect from the passing of the Ordinary Resolution, and will (unless revoked or varied by the Company in general meeting) continue to be in force until the next AGM. Approval from the Shareholders will be sought for the renewal of the Proposed IPT Mandate at the next AGM and at each subsequent AGM, subject to satisfactory review by the Audit Committee of its continued application to the transactions with the Interested Persons.

3.6 Disclosure to Shareholders

The full text on the disclosure to the Shareholders pursuant to Rule 920(1)(a) of the Listing Manual can be found in Section 3.9 of the Circular.

Due to the frequency and the nature of the Interested Person Transactions under the Proposed IPT Mandate, for good governance, the Company will report all Interested Person Transactions (including transactions of less than S\$100,000 each), should the Ordinary Resolution in respect of the same be passed at the forthcoming EGM.

4. OPINION

In arriving at our opinion in respect of the Proposed IPT Mandate, we have considered, *inter alia*, the following:

- (a) classes of the Interested Persons;
- (b) nature and scope of the Interested Person Transactions;
- (c) rationale for the Proposed IPT Mandate and benefits to the Group; and
- (d) guidelines and review procedures for the Interested Person Transactions.

Based on the above, Provenance Capital is of the opinion that the adoption of the Proposed IPT Mandate and the guidelines and review procedures for determining the terms of the Proposed IPT Mandate as set out in Section 3 of the Circular, if adhered to, are sufficient to ensure that the Interested Person Transactions will be carried out on normal commercial terms and will not be prejudicial to the interests of the Company and its minority Shareholders.

Our opinion is addressed to the Independent Directors for the purpose of their consideration of the Proposed IPT Mandate, and the recommendation to be made by them to the Shareholders shall remain their sole responsibility. Whilst a copy of this Letter may be reproduced in the Circular, neither the Company, the Directors nor any other person may reproduce, disseminate or quote this letter (or any part thereof) for the purpose of any matter which does not relate to the Proposed IPT Mandate at any time and in any manner without our prior written consent in each specific case.

This Letter is governed by, and construed in accordance with, the laws of Singapore, and is strictly limited to the matters stated herein and does not imply implication to any other matter.

Yours faithfully
For and on behalf of
PROVENANCE CAPITAL PTE. LTD.

Terence Lim
Director

FABCHEM CHINA LIMITED

(Incorporated in the Republic of Singapore on 12 October 2004)
(Company Registration Number: 200413128G)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an Extraordinary General Meeting (“**EGM**”) of Fabchem China Limited (the “**Company**”) will be convened at 2 Bukit Merah Central, Level 1 Drucker/Juran Boardroom, Singapore 159835 on 25 July 2014 at 10.30 a.m. or such time immediately following the conclusion or adjournment of the annual general meeting of the Company to be held on the same day and at the same place, for the purpose of considering and, if thought fit, passing with or without any modifications the following resolution:

ORDINARY RESOLUTION

THAT:

THE PROPOSED SHAREHOLDERS’ MANDATE FOR INTERESTED PERSON TRANSACTIONS

- (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 that are entities at risk (as defined in Chapter 9 of the Listing Manual of the SGX-ST), or any of them, to enter into any of the transactions falling within the types of Interested Person Transactions described in Section 3.6 (*Nature and Scope of the Interested Person Transactions*) of the Circular with the classes of Interested Persons (as described in Section 3.5 (*Classes of Interested Persons*) of the Circular), provided that such transactions are made on normal commercial terms, will not be prejudicial to the interests of the Company and its minority shareholders and are in accordance with the guidelines and review procedures for such Interested Person Transactions (the “**Proposed IPT Mandate**”);
- (b) the Proposed IPT Mandate shall, unless revoked or varied by the Company in general meeting, continue in force until the conclusion of 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 board of directors of the Company and any of them be and are hereby authorised to complete and do all such acts and things (including without limitation, executing all such documents as may be required) as they or he may consider expedient or necessary or in the interests of the Company to give effect to the transactions contemplated and/or authorised by the Proposed IPT Mandate and/or this Resolution.

By Order of the Board

Tan Min-Li
Company Secretary
Singapore

10 July 2014

Notes:

- (a) Every shareholder of the Company entitled to attend and vote at the Extraordinary General Meeting is entitled to appoint not more than two proxies to attend and vote on his behalf. A proxy need not be a shareholder of the Company.
- (b) A shareholder of the Company which is a corporation is entitled to appoint its authorised representative or proxies to vote on its behalf.
- (c) The instrument appointing a proxy must be deposited at the registered office of the Company at 80 Robinson Road #02-00, Singapore 068898 at least 48 hours before the time set for the Extraordinary General Meeting or any postponement or adjournment thereof.

FABCHEM CHINA LIMITED

(Incorporated in the Republic of Singapore on 12 October 2004)
(Company Registration Number: 200413128G)

IMPORTANT:

1. For investors who have used their CPF monies to buy Fabchem China Limited shares, this Circular is forwarded to them at the request of their CPF Approved Nominees and is sent solely FOR INFORMATION ONLY.
2. This Proxy Form is not valid for use by CPF investors and shall be ineffective for all intents and purposes if used or purported to be used by them.
3. CPF investors who wish to attend the Meeting as observers must submit their requests through their CPF Approved Nominees within the time frame specified. If they also wish to vote, they must submit their voting instructions to their CPF Approved Nominees within the time frame.

PROXY FORM

I/We _____

of _____ (Address)

being a member/members of **FABCHEM CHINA LIMITED** (the “**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 and, if necessary, to demand a poll at the Extraordinary General Meeting of the Company to be convened at 2 Bukit Merah Central, Level 1 Drucker/Juran Boardroom, Singapore 159835 on 25 July 2014 at 10.30 a.m. or such time immediately following the conclusion or adjournment of the annual general meeting of the Company to be held on the same day and at the same place. I/We direct my/our proxy/ proxies to vote for or against the Ordinary Resolution to be proposed at the Extraordinary General Meeting as indicated hereunder. If no specific direction as to voting is given, the proxy/proxies will vote or abstain from voting at his/her/their discretion, as he/she/they will on any other matter arising at the Extraordinary General Meeting.

Ordinary Resolution	For*	Against*
To approve the proposed shareholders' mandate for interested person transactions		

* Please indicate your vote “For” or “Against” with an “x” within the box provided.

Dated this _____ day of _____ 2014

Total Number of Shares held

Signature(s) of Member(s)/ Common Seal of Corporate Shareholder

IMPORTANT PLEASE READ NOTES OVERLEAF BEFORE COMPLETING THIS PROXY FORM



Notes:

1. A shareholder of the Company entitled to attend and vote at the Extraordinary General Meeting is entitled to appoint one or two proxies to attend and vote in his/her stead. A proxy need not be a shareholder of the Company.
2. Where a shareholder of the Company appoints more than one proxy, the appointments shall be invalid unless he specifies the proportion of his/her shareholding (expressed as a percentage of the whole) to be represented by each proxy.
3. A shareholder of the Company should insert the total number of shares held. If the shareholder of the Company has shares entered against his/her name in the Depository Register (as defined in Section 130A of the Companies Act, Cap. 50 of Singapore), he/she should insert that number of shares. If the shareholder of the Company has shares registered in his/her name in the Register of Members of the Company, he/she should insert that number of shares. If the shareholder of the Company has shares entered against his/her name in the Depository Register and registered in his/her name in the Register of Members, he/she should insert the aggregate number of shares. If no number is inserted, the instrument appointing a proxy or proxies will be deemed to relate to all shares held by the shareholder of the Company.
4. The instrument appointing a proxy or proxies must be deposited at the registered office of the Company located at 80 Robinson Road #02-00, Singapore 068898 not less than 48 hours before the time set for the Extraordinary General Meeting.
5. The instrument appointing a proxy or proxies must be under the hand of the appointor or by his/her attorney duly authorised in writing. Where the instrument appointing a proxy or proxies is executed by a corporation, it must be executed either under its common seal or under the hand of its attorney or a duly authorised officer.
6. Where an instrument appointing a proxy or proxies is signed on behalf of the appointor by an attorney, the letter or power of attorney or a duly certified true copy thereof must (failing previous registration with the Company) be lodged with the instrument of proxy, failing which the instrument may be treated as invalid.
7. A corporation which is a shareholder of the Company may, in accordance with Section 179 of the Companies Act, Cap. 50 of Singapore, authorise by resolution of its directors or other governing body such person as it thinks fit to act as its representative at the Extraordinary General Meeting.
8. The Company shall be entitled to reject the instrument appointing a proxy or proxies, if it is incomplete, improperly completed, illegible or where the true intentions of the appointor are not ascertainable from the instructions of the appointor specified on the instrument appointing a proxy or proxies. In addition, in the case of shares entered in the Depository Register, the Company may reject any instrument appointing a proxy or proxies if a shareholder of the Company, being the appointor, is not shown to have shares entered against his/her name in the Depository Register as at 48 hours before the time appointed for holding the Extraordinary General Meeting, as certified by the Central Depository (Pte) Limited to the Company.

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