

# FABCHEM CHINA LIMITED

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

## APPENDIX 2 TO THE NOTICE OF ANNUAL GENERAL MEETING OF FABCHEM CHINA LIMITED DATED 16 JULY 2018

This Appendix 2 is circulated to shareholders of Fabchem China Limited (the “Company”) together with the Company’s Annual Report. Its purpose is to provide shareholders with the relevant information relating to, and to seek shareholders’ approval for the renewal of the Yinguang Chemical Group IPT Mandate (defined herein) for the Mandated Transactions (defined herein) to be tabled at 2 Bukit Merah Central, Level 1 Drucker/Juran Boardroom, Singapore 159835 on 31 July 2018 at 9.30 a.m..

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.

The Singapore Exchange Securities Trading Limited (“SGX-ST”) assumes no responsibility for the accuracy of any statement made, opinions expressed or reports contained in this Appendix 2.

**To: The Shareholders of Fabchem China Limited**

**THE PROPOSED RENEWAL OF THE SHAREHOLDERS’ MANDATE FOR INTERESTED PERSON TRANSACTIONS WITH SHANDONG YINGUANG SECURITY SERVICES CO., LTD (“YINGUANG SECURITY”), WULIAN HANYUE BLASTING SERVICES CO., LTD (“WULIAN HANYUE”) AND SHANDONG YINGUANG COMMERCIAL EXPLOSIVES SALES AND SERVICES (“YINGUANG COMMERCIAL EXPLOSIVES”)**

### 1. INTRODUCTION

- 1.1 The Proposed Resolution No. 8 in the Notice of the Annual General Meeting (the “AGM”) to be held on 31 July 2018 relates to the renewal of the general mandate to authorise the Company and its subsidiaries (collectively, the “Group”) that are considered to be “entities at risk” within the meaning of Chapter 9 of the Listing Manual, to enter into, in the ordinary course of business, any of the Mandated Transactions with the Mandated Interested Persons (defined herein), provided that such transactions are made on normal commercial terms and in accordance with the review procedures for such transactions (the “Yinguang Chemical Group IPT Mandate”).
- 1.2 At an extraordinary general meeting of the Company held on 29 July 2017 (the “2017 EGM”), the shareholders of the Company (“Shareholders”) had, *inter alia*, approved the Yinguang Chemical Group IPT Mandate to enable the Group to enter, in the ordinary course of business, into certain specified classes of transactions with certain specified interested persons.
- 1.3 The Yinguang Chemical Group IPT Mandate will expire on the date of the forthcoming AGM. Accordingly, it is proposed that the Yinguang Chemical Group IPT Mandate be renewed at the forthcoming AGM, to take effect until the next AGM of the Company. General information pertaining to Chapter 9 of the Listing Manual is set out in Schedule I of Appendix 1.

### 2. DETAILS OF YINGUANG CHEMICAL GROUP IPT MANDATE GRANTED AT THE 2017 EGM

#### 2.1 Details of Mandated Interested Persons

The mandated interested persons are Yinguang Security, Wulian Hanyue and Yinguang Commercial Explosives and will include present and future Associates (which may arise from time to time) of Sun Bowen and Bao Hongwei which are also involved in the Mandated Transactions (“Mandated Interested Persons”). Further information can be found in the Schedule to Appendix 2.

## 2.2 Nature of Mandated Interested Persons Transactions

Yinguang Commercial Explosives is principally engaged in the trading of commercial explosives products, including but not limited to collectively, explosive devices (boosters), industrial fuse and initiating explosive devices (detonating cords and non-electric tubes), and industrial detonators (piston non-electric detonators) ("Initiation Systems Products"). Wulian Hanyue is principally engaged in the business of trading commercial explosives products, including but not limited to Initiation Systems Products. Yinguang Security is principally engaged in the provision of specialised security services and provides such services to Shandong Yinguang Technology Co., Ltd, the wholly-owned subsidiary of the Company ("Yinguang Technology") through the provision of its personnel for Yinguang Technology's manufacturing facilities, office area and during the transportation of commercial explosives (the "Yinguang Security Services").

The approval of the Yinguang Chemical Group IPT Mandate obtained at the 2017 EGM applies to the sale of Initiation Systems Products by the Group through Yinguang Technology to Yinguang Commercial Explosives (the "Yinguang Commercial Explosives Sales"), the sale of Initiation Systems Products by the Group through Yinguang Technology to Wulian Hanyue (the "Wulian Hanyue Sales") and the supply of Yinguang Security Services by Yinguang Security through Yinguang Technology to the Group.

Further details of the Mandated Transactions which were disclosed in the circular of the Company dated 14 July 2017 issued to Shareholders for purposes of the 2017 EGM, have been extracted and reproduced as set out in the Schedule to Appendix 2 for your ease of reference. For the avoidance of doubt, the Yinguang Chemical Group IPT Mandate is referred to as the Proposed IPT Mandate in the Schedule to Appendix 2.

The Yinguang Chemical Group IPT Mandate will not cover any transaction by a company in the Group with the Mandated Interested Persons that is below S\$100,000 in value, as the threshold and aggregation requirements contained in Chapter 9 of the Listing Manual would not apply to such a transaction.

Transactions with the Mandated Interested Persons which do not fall within the ambit of the Yinguang Chemical Group IPT Mandate shall be subject to the relevant provisions of Chapter 9 of the Listing Manual and/or other applicable provisions of the Listing Manual.

## 3. RATIONALE FOR AND BENEFIT OF THE YINGUANG CHEMICAL GROUP IPT MANDATE

### 3.1 Rationale

It is envisaged that the Group will in its ordinary course of business enter or continue to enter into the Yinguang Commercial Explosives Sales, Wulian Hanyue Sales and sale of Initiation Systems Products to future Associates of Sun Bowen and Bao Hongwei (if any) (together, the "Initiation Systems Products Sales") and the procurement of Yinguang Security Services and security services from future Associates of Sun Bowen and Bao Hongwei (if any) ("Security Services Procurement") (together, the "Mandated Transactions") with the Mandated Interested Persons. Such transactions are recurring transactions and are part of the day-to-day operations of the Group. Therefore they are likely to occur with some degree of frequency and could arise from time to time and as such, are time-sensitive. In view thereof and the need for smooth and efficient conduct of business, and to allow the Group to undertake such transactions in a more expeditious manner, the Directors are seeking approval of Independent Shareholders for the renewal of the Yinguang Chemical Group IPT Mandate, 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 the Company and its minority Shareholders. The renewal of the Yinguang Chemical Group IPT Mandate, if approved by Shareholders, will enhance the Group's ability to pursue business opportunities, which may be time-sensitive and frequent in nature.

The nature and scope of the Mandated Transactions, as well as details of the Mandated Interested Persons, are detailed in Sections 2.1 (*Details of Mandated Interested Persons*) and 2.2 (*Nature of Mandated Interested Persons Transactions*) above.

### 3.2 Benefits

The Yinguang Chemical Group 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 Mandated Transactions. 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 channeled towards attaining other business objectives available to the Company.

The Group will be able to maximize its business opportunities especially in transactions that are time-sensitive in nature, and the significant amount of administrative resources, time and expenses saved could be channeled towards attaining other corporate objectives. The Yinguang Commercial Explosive Sales and Wulian Hanyue Sales in particular are also an additional source of revenue stream for the Group which will help to bolster its market share within the industry, provided that such products and services are provided on normal commercial terms. Notwithstanding the above, Shareholders will be updated on the value of such Mandated Transactions through the Company's interim and full-year financial statements and in its annual report.

## 4. REVIEW PROCEDURES FOR MANDATED INTERESTED PERSONS TRANSACTIONS

### 4.1 Review Procedures for the Initiation Systems Products Sales

Having regard to the nature of the Initiation Systems Products Sales, and the criteria in establishing the review procedures which is to ensure that such 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 (People's Republic of China ("PRC") operations) and a Director, both of whom have no interest, directly or indirectly, in the transaction (collectively, the "Review Team"), and the sales personnel and/or general manager will obtain the selling prices and terms of at least two (2) other successful sales of similar nature by the Group to unrelated third parties, contemporaneous in time, as a basis for comparison for the Review Team. The selling prices quoted to the Mandated Interested Persons or submitted by the Group to them at their bidding exercises (as the case may be) shall not be lower than the lowest selling price of similar transactions with the unrelated third parties;
- (ii) the Initiation Systems Products Sales shall be on pricing and terms which are no more favourable to the Mandated Interested Persons than the usual commercial terms and prevailing market rates extended to unrelated third parties, after taking into account the relevant 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 costs for freight;
- (iii) where it is impossible or impractical to obtain the terms of other similar transactions with unrelated third parties or publicly quoted prices, to compare against the terms of the Initiation Systems Products Sale, the Review Team will determine the transaction pricing 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 prices, 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, availability of preferential rates, discounts or rebates for bulk purchases and cost of freight will be taken into account; and
- (iv) the Group will not proceed with any transaction with the Mandated Interested Persons if it results in a gross loss (i.e. after deducting costs of sales) to the Group.

#### 4.2 Review Procedures for the Security Services Procurement

Having regard to the nature of the Security Services Procurement, and the criteria in establishing the review procedures which is to ensure that such renewals of the Yinguang Security Services Contract (defined below) 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 head of safety department and/or general manager will submit the recommendation to renew the contract entered into between Shandong Yinguang Technology Co., Ltd. (“Yinguang Technology”) and Yinguang Security on 1 May 2014 and subsequently renewed on 1 May 2015, 1 May 2016, 1 May 2017 and 1 May 2018 (“Yinguang Security Services Contract”) for approval to the Review Team, and the head of safety department and/or general manager shall obtain at least two (2) quotations from unrelated third parties, or failing which, obtain the terms of two (2) contracts entered into by the Mandated Interested Person with unrelated third parties, contemporaneous in time, as a basis for comparison for the Review Team. The fee payable by the Group for the duration of the Yinguang Security Services Contract shall not be higher than the most favourable price or fees of the two (2) other quotations obtained from unrelated third parties or the terms of two (2) other contracts entered into by the Mandated Interested Person with unrelated third parties;
- (ii) the Security Services Procurement shall be on pricing and terms which are no more favourable to the Mandated Interested Person than the usual commercial terms and prevailing market rates extended by unrelated third parties to the Group or in event of failure to obtain such quotations, the terms of the contracts entered into by the Mandated Interested Person with unrelated third parties, after taking into account factors such as, but not limited to, track record, previous working experience, requirements and specifications of the Group, duration of contract, and availability of preferential rates, discounts or rebates for longer contractual periods; and
- (iii) where it is impossible or impractical to obtain comparable prices of contemporaneous transactions of similar services to compare against the terms of the Security Services Procurement due to the nature of the services to be obtained from the Mandated Interested Person, the Review Team will (i) take such necessary steps to determine that the terms provided by the Mandated Interested Person are fair and reasonable, including the estimated cost of employing security guards on a full-time basis for the contracted period and (ii) evaluate and weigh the benefits of and rationale for transacting with the Mandated Interested Person, taking into account factors such as but not limited to, track record, previous working experience, requirements and specifications of the Group, duration of contract, preferential rates, discounts or rebates for longer contractual periods.

#### 4.3 Approval Threshold Limits

In addition to the review procedures, before entering into the Mandated Transactions, each of the Mandated Transactions will be subject to review and pre-approval by the relevant authorities according to the value of the Mandated Transaction as set out in the approval matrix below:

<b>Approval Threshold Limits</b>		
	<b>Value of each Mandated Transaction</b>	<b>Approving Authorities</b> <i>(each having no interest, direct or indirect, in the Mandated Transaction)</i>
1	At least S\$100,000 <sup>(1)</sup> and above but less than RMB1.0 million (“ <b>Threshold Limit</b> ”)	A Director and the head of finance (PRC operations)
2	Equal to or exceeding the Threshold Limit	Majority of the Audit Committee of the Company (“ <b>Audit Committee</b> ”)

**Note:**

- (1) Which is equivalent to RMB478,800 based on the foreign exchange rate of S\$1:RMB4.788 on 31 March 2018

The Threshold Limit of RMB1.0 million (approximately S\$208,855.47 based on the foreign exchange rate of S\$1:RMB4.788 on 31 March 2018) for each Mandated Transaction which requires the approval of the Audit Committee is regarded as reasonable by the Independent Directors based on, *amongst others*, the anticipated value, volume, size and frequency of the Mandated Transactions that the Group may enter into with the Mandated Interested Persons. The Threshold Limit is arrived at with the view to strike a balance between maximizing the operational efficiency of the day-to-day operations of the Group, and maintaining adequate internal controls and governance in relation to the Mandated Transactions.

In addition, the above review includes the examination of the Mandated Transactions and its supporting documents or such data deemed necessary by the Director or the Audit Committee, as referred to in the above approval matrix. The finance manager will prepare the relevant information to assist the Director or the Audit Committee in its review. The Director or the Audit Committee may, if it deems fit, have the right to require the appointment of independent advisers and/or valuers from external or professional sources to provide additional information or review of controls and its implementation pertaining to the Mandated Transactions under review.

In the event that a Director or member of the Audit Committee (where applicable) is interested (directly or indirectly) in any Mandated Transaction, he will abstain from reviewing that particular transaction to ensure that the Mandated Transaction will be carried out on normal commercial terms and will not be prejudicial to the interests of the Company and its minority Shareholders. Approval of that transaction will accordingly be undertaken by the remaining Directors or members of the Audit Committee.

Pursuant to Chapter 9 of the Listing Manual, Mandated Transactions that are below S\$100,000 each will not be subject to the review procedures set out in this Section 4 (*Review Procedures for Mandated Interested Persons Transactions*).

#### **4.4 Additional Review Procedures**

Apart from the guidelines and review procedures as set out in Sections 4.1 (*Review Procedures for the Initiation Systems Products Sales*), 4.2 (*Review Procedures for the Security Services Procurement*) and 4.3 (*Approval Threshold Limits*) above, the Company will also implement and adhere to the following additional guidelines and review procedures:

(i) Register of Mandated Transactions

Each Mandated Transaction will be properly documented and the Company will maintain a register of all such Mandated Transactions entered into with the Mandated Interested Persons (the “IPT Register”). The basis for entering into the Mandated Transactions, including the quotations or terms of contracts obtained (if any), as the case may be, to support such basis on which they were entered into, will also be recorded in the IPT Register. The head of finance (PRC operations) and his assistant, not having any interest, direct or indirect in the Mandated Transactions, will ensure that the IPT Register is properly updated.

The IPT Register will also record any transactions with the Mandated Interested Person that is below S\$100,000 in value, even though such transactions are not covered under the Yinguang Chemical Group IPT Mandate.

(ii) Review by Audit Committee

Our Audit Committee will periodically, at least on a quarterly basis, review the IPT Register to (a) ensure that the Mandated Transactions are carried out on normal commercial terms and in accordance with the guidelines and review procedures under the Yinguang Chemical Group IPT Mandate; and (b) determine if such guidelines and review procedures continue to be adequate and/or commercially practicable in ensuring that the Mandated Transactions 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.

If, during these reviews, the Audit Committee is of the view that the guidelines and review procedures have become inappropriate and/or insufficient to meet such objectives, the Company will seek a fresh mandate from Shareholders based on new guidelines and review procedures for transactions with the Mandated Interested Persons. During the period prior to obtaining a fresh mandate from Shareholders, all Mandated Transactions will be subject to prior review and approval by the Audit Committee.

(iii) 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 Mandated Transactions entered into by the Group pursuant to the Yinguang Chemical Group 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 Mandated Transactions will be forwarded to the Audit Committee.

(iv) Review by External Auditors

As part of the Group's annual audit, external auditors of the Company will review the Mandated 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.

(v) Review by Directors

Our Board will ensure that all disclosure, approval and other requirements on the Mandated Transactions, including those required by prevailing legislation, the Listing Manual and accounting standards, are complied with.

**5. VALIDITY PERIOD OF THE IPT MANDATE**

The renewal of the Yinguang Chemical Group IPT Mandate is subject to Independent Shareholders' approval at the AGM. If approved by Independent Shareholders at the AGM, the Yinguang Chemical Group IPT Mandate will take effect from the passing of the resolution in respect of the Yinguang Chemical Group IPT Mandate, and will (unless revoked or varied by the Company in general meeting) continue in force until the next AGM. Approval from Independent Shareholders will be sought for the renewal of the Yinguang Chemical Group 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 Mandated Interested Persons.

**6. DISCLOSURE TO SHAREHOLDERS**

The Company will announce the aggregate value of transactions conducted with the Mandated Interested Persons pursuant to the Yinguang Chemical Group IPT Mandate for the relevant financial periods which it is required to report on pursuant to Rule 705 of the Listing Manual and within the time required for the announcement of such reports in accordance with Rule 920(1)(a)(ii) of the Listing Manual.

Disclosure will also be made in the annual report of the Company of the aggregate value of the Mandated Transactions pursuant to the Yinguang Chemical Group IPT Mandate during the relevant financial period and in the annual reports for the subsequent financial years during which the Yinguang Chemical Group IPT Mandate is in force, in the following format as stipulated under 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 S\$100,000 and transactions conducted under Shareholders' mandate pursuant to Rule 920)	Aggregate value of all interested person transactions conducted under Shareholders' mandate pursuant to Rule 920 (excluding transactions less than S\$100,000)

Our Board will ensure that all disclosures, approvals and other requirements on the Mandated Transactions, including those required by prevailing legislation, the Listing Manual and accounting standards, are complied with.

## **7. STATEMENT OF THE AUDIT COMMITTEE**

**7.1** The Audit Committee of the Company has reviewed the terms of the Yinguang Chemical Group IPT Mandate and confirms that:

- (a) the methods or procedures for determining the transaction prices under the Yinguang Chemical Group IPT Mandate have not changed since the last Shareholders' approval; and
- (b) the methods and procedures referred to in (a) above are sufficient to ensure that the transactions will be carried out on normal commercial terms and will not be prejudicial to the interests of the Company and its minority Shareholders.

**7.2** However, should the Audit Committee subsequently no longer be of the opinion or the methods or procedures become inappropriate, the Company will revert to the Shareholders for a fresh mandate based on new guidelines and procedures for transactions with interested persons.

## **8. DIRECTORS' AND SUBSTANTIAL SHAREHOLDERS' INTERESTS**

**Please refer to Appendix 1 Section 8 for Directors' and Substantial Shareholders' interests.**

## **9. ABSTENTIONS FROM VOTING**

In accordance with Rules 919 and 921(7) of the Listing Manual, Sun Bowen and Bao Hongwei, each holding an aggregate shareholding interest of 32.35% and an aggregate shareholding interest of 5.73% in the Company respectively as at the Latest Practicable Date as set out in Section 8 (*Directors and Substantial Shareholders' Interests*) above, and being interested persons as described in Sections 2.1 (*Details of Mandated Interested Persons*) above, will abstain, and have undertaken to ensure that their Associates will abstain, from voting on the resolutions approving the renewal of the Yinguang Chemical Group IPT Mandate.

Further, Sun Bowen and 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 AGM in respect of the resolutions relating to the renewal of the Yinguang Chemical Group IPT Mandate, unless the Shareholder concerned has given specific instructions as to the manner in which his votes are to be cast at the AGM.

## **10. DIRECTORS' RECOMMENDATION**

As described in Section 2.1 (*Details of the Mandated Interested Person*) above, due to the interests of Yinguang Chemical Group in Yinguang Commercial Explosives, Wulian Hanyue and Yinguang Security, and as the Company's Controlling Shareholder, Executive Director and Senior Advisor Sun Bowen and the Company's Managing Director Bao Hongwei hold an aggregate of 60.0% and 6.0% in the equity capital of Yinguang Chemical Group, both Sun Bowen and Bao Hongwei are deemed to be interested persons with respect to the renewal of the Yinguang Chemical Group IPT Mandate, and have abstained from making any recommendations to Shareholders in respect of the renewal of the Yinguang Chemical Group IPT Mandate.

The Independent Directors having considered, *amongst others*, the rationale for and benefits of the renewal of the Yinguang Chemical Group IPT Mandate as set out in Sections 3 (*Rationale for and benefit of the Yinguang Chemical Group IPT Mandate*) and the statement of the Audit Committee as set out in Section 7 (*Statement of Audit Committee*), are of the opinion that the renewal of the Yinguang Chemical Group IPT Mandate are in the best interests of the Company and recommend that Independent Shareholders vote in favour of the resolution in relation to the renewal of the Yinguang Chemical Group IPT Mandate to be proposed at the forthcoming AGM.

In giving the above recommendations, the Independent Directors have not taken into consideration the specific objectives, financial situation or unique needs and constraints of each Independent Shareholder. **The Independent Directors recommend that any Independent Shareholder who has doubt as to the action he should take should consult his stockbroker, bank manager, solicitor, accountant, tax adviser or other professional adviser.**

#### **11. DIRECTORS' RESPONSIBILITY STATEMENT**

The Directors collectively and individually accept full responsibility for the accuracy of the information given in this Appendix 2 and confirm after making all reasonable enquiries that, to the best of their knowledge and belief, this Appendix 2 constitutes full and true disclosure of all material facts about the renewal of the Yinguang Chemical Group IPT Mandate, the Company and its subsidiaries, and the Directors are not aware of any facts the omission of which would make any statement in this Appendix 2 misleading. Where information in this Appendix 2 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.

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## SCHEDULE to Appendix 2

### EXTRACT OF DETAILS OF THE MANDATED INTERESTED PERSON TRANSACTIONS

*(All defined terms used herein shall have the meaning ascribed to them in the Circular of the Company dated 14 July 2017 issued to Shareholders for purposes of the EGM held on 2017 EGM)*

#### THE MINBAO GROUP IPT MANDATE

##### Background Introduction

At an extraordinary general meeting of the Company held on 25 July 2014, the Shareholders had granted an interested person transaction mandate (the “**Minbao Group IPT Mandate**”) to enable the Group to enter into transactions, in the ordinary course of business, with the Minbao Group, namely Yinguang Minbao and Yinguang Commercial Explosives for the sales of AN Products and Initiation Systems Products respectively. The Minbao Group IPT Mandate was subsequently renewed at the AGM of the Company for FY2015 and FY2016.

Following the disposal of Hebei Yinguang by the Company at an extraordinary general meeting of the Company held on 31 August 2016, the Group no longer produces AN Products and as such, sales of AN Products to Yinguang Minbao have ceased. The Group continues to sell Initiation Systems Products to Yinguang Commercial Explosives through Yinguang Technology. In addition, the Group also sells and supplies Initiation Systems Products to Wulian Hanyue and obtains security services from Yinguang Security, in the ordinary course of business of the Group.

##### Classes of Mandated Interested Persons

The Proposed IPT Mandate will apply to Mandated Transactions which are carried out between the Group and the Mandated Interested Persons as described below:

#### 4.5.1 Yinguang Commercial Explosives

- (i) As at the Latest Practicable Date, Sun Bowen, the Managing Director and a Controlling Shareholder of the Company, and Bao Hongwei, the Executive Director of the Company, hold an aggregate of 60.0% and 6.0% of the equity capital of Yinguang Chemical Group respectively. Sun Qiang, the son of Sun Bowen and the sales and marketing manager of the Company, holds approximately 3.5% of the equity capital of Yinguang Chemical Group. The remaining 30.5% of the equity capital of Yinguang Chemical Group are held by other third parties who are not related to the Directors and Controlling Shareholders of the Company. These third parties are Yang Xingdong, Chen Hongyu, Wang Huaixia, Fan Zhihe, Bu Qingyou, Pan Youling, Li Xuehong, Sun Baicheng, Li Shanhua, Wang Hongying, Chen Shijiang, Bo Jianmei, Guo Shijing, Tian Jie, Yan Ruhong, Chen Yuechang, Wang Jianhua, Wang Longqing, Wang Xigui, Wang Jian, Yin Jihe, Liu Ping, Tan Guanglan, Wang Yujian, Shao Shitian, Han Xiuying, Wang Hongjiang, Tang Zhiqiang, Zhu Chaoxia, Guo Chaogui, Li Guangjun, Sun Xiaohui, Li Lili, Hong Lijuan, Yang Li, Wang Shenghan, Zhang Qingmei, Zhao Tidong, Cai Chunsheng and Han Zhenshan. Both Sun Bowen and Bao Hongwei are also directors of Yinguang Chemical Group.
- (ii) Yinguang Chemical Group in turn holds 30.0% of the equity capital of Yinguang Minbao. The remaining 70.0% of the equity capital of Yinguang Minbao is held by a third party who is not related to the Directors and Controlling Shareholders of the Company. This third party is Baoli Jiulian Group Holdings Co., Ltd (保利久联控股集团有限责任公司). Sun Qiang is a non-executive director of Yinguang Minbao. Neither Sun Bowen nor Bao Hongwei is a director of Yinguang Minbao. Yinguang Chemical Group also holds 10.3% of the equity capital of Mengyin Yinguang. The remaining 89.7% of the equity capital of Mengyin Yinguang are held by other third parties who are not related to the Directors and

Controlling Shareholders of the Company. These third parties are Wang Guohua, Wang Xuemei, Wang Ying, Wang Jilong, Ma Xiaopeng, Hu Chengli, Zhang Bin, Liu Jun, Zhang Debing, Ma Jixiang, Tian Fang, Gong Maojun, Zou Shikai, Wang Faju, Yu Wengang, Wang Xianai, Zhang Jinhong, Ren Guanwei, Wang Liqin, Xu Juan, Liu Changhua, Xue Nianfa, Wang Fengjuan, Yang Xia, Gong Guochun, Shi Yinghong, Gong Maofeng, Fang Lingyan, Zhang Hehua, Sun Jiping, Li Guifeng, Su Xiaohong, Zhang Jiaxue and Wang Xiangfa. Neither Sun Bowen, Bao Hongwei nor Sun Qiang is a director of Mengyin Yinguang.

- (iii) Yinguang Minbao in turn holds 97.6% and Mengyin Yinguang holds 2.4% of the equity capital of Yinguang Commercial Explosives. Neither Sun Bowen, Sun Qiang nor Bao Hongwei is a director of Yinguang Commercial Explosives.
- (iv) Pursuant to Chapter 9 of the Listing Manual, Yinguang Commercial Explosives is considered an indirect associate of Sun Bowen and Bao Hongwei and is therefore deemed to be an interested person. Accordingly, transactions entered into between the Group and Yinguang Commercial Explosives are deemed interested person transactions, and would be subject to Chapter 9 of the Listing Manual.

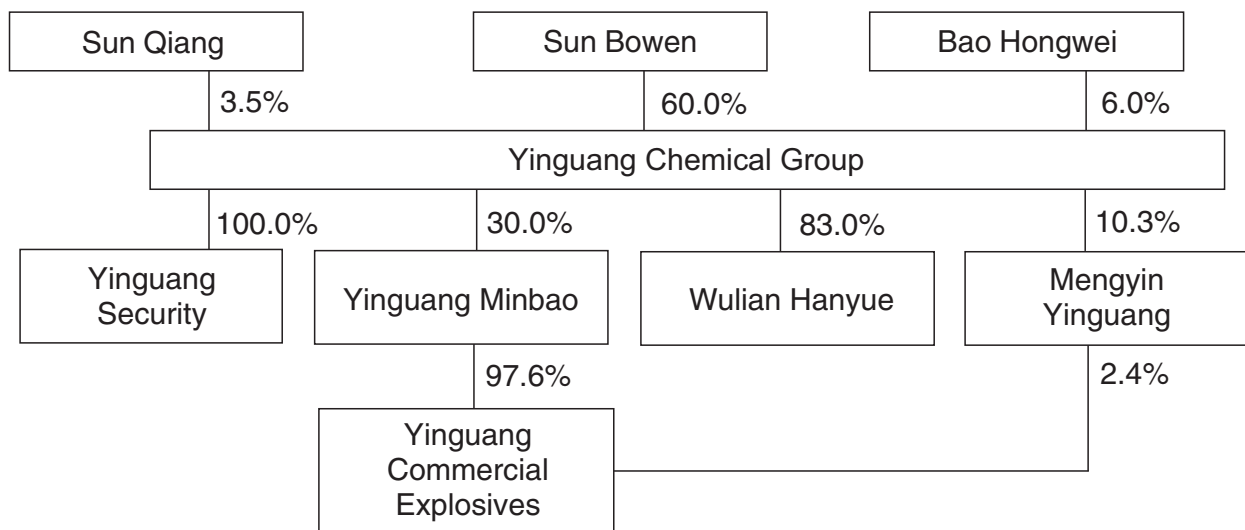
#### 4.5.2 Wulian Hanyue

- (i) As described in Section 4.5.1(i) above, Sun Bowen, Bao Hongwei and Sun Qiang hold an aggregate of 60.0%, 6.0% and approximately 3.5% of the equity capital of Yinguang Chemical Group respectively.
- (ii) Yinguang Chemical Group in turn holds 83.0% of the equity capital of Wulian Hanyue. The remaining 17.0% of the equity capital of Wulian Hanyue are held by other third parties who are not related to the Directors and Controlling Shareholders of the Company. These third parties are Han Boxiang, Zhang Jian, Guan Xizeng, Zheng Yunyong, Guan Xifu, Chen Yongbing, Zhang Shanshuang, Chi Yubing, Xue Fen and Wang Haihong. Sun Bowen is a non-executive director of Wulian Hanyue. Neither Sun Qiang nor Bao Hongwei is a director of Wulian Hanyue.
- (iii) Pursuant to Chapter 9 of the Listing Manual, Wulian Hanyue is considered an indirect associate of Sun Bowen and Bao Hongwei and is therefore deemed to be an interested person. Accordingly, transactions entered into between the Group and Wulian Hanyue are deemed interested person transactions, and would be subject to Chapter 9 of the Listing Manual.

#### 4.5.3 Yinguang Security

- (i) As described in Section 4.5.1(i) above, Sun Bowen, Bao Hongwei and Sun Qiang hold an aggregate of 60.0%, 6.0% and approximately 3.5% of the equity capital of Yinguang Chemical Group respectively.
- (ii) Yinguang Chemical Group in turn holds 100.0% of the equity capital of Yinguang Security. Bao Hongwei is a non-executive director of Yinguang Security. Neither Sun Bowen nor Sun Qiang is a director of Yinguang Security.
- (v) Pursuant to Chapter 9 of the Listing Manual, Yinguang Security is considered an indirect associate of Sun Bowen and Bao Hongwei and is therefore deemed to be an interested person. Accordingly, transactions entered into between the Group and Yinguang Security are deemed interested person transactions, and would be subject to Chapter 9 of the Listing Manual.

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



**For the avoidance of doubt, the Proposed IPT Mandate will apply to the Mandated Interested Persons which will include present and/or future Associates (which may arise from time to time) of Sun Bowen and Bao Hongwei which are involved in the Mandated Transactions. Accordingly, if Sun Bowen and Bao Hongwei acquire any Associates in the future and such Associates engage in the Mandated Transactions, the Proposed IPT Mandate will apply to (and a separate shareholder approval will not be required for) such future Associates and its Mandated Transaction with the Group, subject to the annual renewal of the Proposed IPT Mandate at an AGM.**

#### **Nature and Scope of the Mandated Transactions**

The Group wishes to obtain Shareholders' approval for the Proposed IPT Mandate, under which the Group may enter into recurrent transactions of a trading nature or those necessary for its day- to-day operations with the Mandated Interested Persons in respect of the following:

- (a) Initiation Systems Products Sales; and
- (b) Security Services Procurement,

to and from the Mandated Interested Persons, as the case may be.

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