CIRCULAR DATED 29 AUGUST 2008

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**"), please forward this Circular, the Notice of Extraordinary General Meeting and the attached Proxy Form immediately to the purchaser or to the agent through whom the sale or the transfer was effected for onward transmission to the purchaser or the 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

(1) THE PROPOSED ACQUISITION OF THE ENTIRE EQUITY INTEREST IN HEBEI YINGUANG CHEMICAL CO., LTD. BY A WHOLLY-OWNED SUBSIDIARY OF THE COMPANY; AND

(2) 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	:	20 September 2008 at 9.00 am
Date and time of Extraordinary General Meeting	:	22 September 2008 at 9.00 am
Place of Extraordinary General Meeting	:	39 Fishery Port Road, Jurong, Singapore 619745

CONTENTS

DEFINITIONS

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

Companies, Organisations and Agencies

"CDP"	:	The Central Depository (Pte) Limited
"COSTIND"	:	Commission of Science, Technology and Industry for National Defense in the PRC
"Fabchem" or the "Company"	:	Fabchem China Limited
"Fertilizer Company"	:	Linxi County Nitrogenous Fertilizer Co., Ltd. (临西县氮肥有限责任公司)
"Group"	:	Fabchem and its subsidiary as at the Latest Practicable Date, namely Shandong Yinguang Technology Co., Ltd.
"Hebei Yinguang"	:	Hebei Yinguang Chemical Co., Ltd (河北银光化工有限公司)
"Independent Financial Adviser"	:	Provenance Capital Pte. Ltd.
"Linxi Fertilizer Factory"	:	Linxi County Nitrogenous Fertilizer Factory (临西县氮肥厂)
"Purchaser"	:	Shandong Yinguang Technology Co., Ltd., the wholly-owned subsidiary of Fabchem
"Qianfeng"	:	Shandong Yinguang Qianfeng Chemical Co., Ltd
"Xinhua"	:	Tai'an Yinguang Xinhua Chemical Co., Ltd
"SGX-ST"	:	Singapore Exchange Securities Trading Limited
"Valuer"	:	Censere Singapore Pte Ltd
"Vendor"	:	Shandong Yinguang Chemical Group Co., Ltd, which wholly owns Hebei Yinguang as at the Latest Practicable Date

General

"Acquisition"	:	The proposed acquisition of the entire equity interest in Hebei Yinguang pursuant to and subject to the terms and conditions of the Agreement
"Agreement"	:	The sale and purchase agreement dated 19 December 2007 entered into between the Vendor and the Purchaser in relation to the Acquisition
"Associate"	:	This term shall have the same meaning as ascribed to it in the SGX-ST Listing Manual, as amended from time to time
"Board"	:	The board of Directors of the Company as at the date of this Circular
"Business Day"	:	A day (excluding Saturdays, Sundays and gazetted public holidays) on which commercial banks are open for business in Singapore and the PRC

"Circular"	:	This Circular to Shareholders dated 29 August 2008
"Companies Act"	:	The Companies Act, Chapter 50 of Singapore (as amended, supplemented or modified from time to time)
"Completion"	:	The completion of the Acquisition in accordance with the Agreement
"Completion Date"	:	The date of Completion, being seven (7) Business Days after the date on which the last of the Conditions is fulfilled, or such other date as the parties to the Agreement may mutually agree in writing
"Conditions"	:	Has the meaning ascribed to it in Section 2.2 of this Circular
"Consideration"	:	Approximately RMB 30.23 million comprising the equity interest of Hebei Yinguang of RMB 9,000,000 and the Shareholder's Loan, payable by the Purchaser to the Vendor in respect of the Acquisition, to be satisfied in cash
"Controlling Shareholder"	:	A person who:- (i) holds, directly or indirectly, 15% or more of the nominal amount of all the voting shares in a company (provided that the SGX-ST may determine that a person who satisfies this definition is not a controlling shareholder); or (ii) in fact exercises control over a company
"Directors"	:	The directors of the Company as at the date of this Circular
"EGM"	:	The extraordinary general meeting of the Shareholders to be convened for the purposes of considering and, if thought fit, passing the resolutions set out in the Notice of EGM set out on page 60 of this Circular
"Existing Loan"	:	The existing loan of approximately RMB 27.2 million as at the Latest Practicable Date due from and owing by Hebei Yinguang to the Fertilizer Company, being the outstanding purchase price for the purchase by Hebei Yinguang of its current business and assets from the Fertilizer Company pursuant to and in accordance with an asset purchase contract dated 3 January 2007 (as supplemented by a supplement agreement dated 14 July 2007)
"FY"	:	Financial year ended or ending 31 March
"Independent Directors"	:	The Independent Directors of the Company, namely, Dr Lim Seck Yeow, Peter Neville Hogan, Alan Grace, Ong Tai Tiong Desmond, Lim Hui Min John and Wong Joo Wan
"Independent Shareholders"	:	Shareholders other than Sun Bowen and Bao Hongwei, who are each deemed to be interested in the Acquisition and the transactions with Xinhua and Qianfeng for reasons set out in Sections 3 and 5 of this Circular
"Interested Person"	:	A person who is considered an "interested person" within the meaning of Chapter 9 of the Listing Manual
"Interested Person Transaction"	:	A transaction entered into between the Group and an Interested Person

"Latest Practicable Date"	:	25 August 2008, being the latest practicable date prior to the printing of this Circular
"Listing Manual"	:	The listing manual of the SGX-ST (as amended, supplemented or modified from time to time)
"Market Day"	:	A day on which the SGX-ST is open for trading in securities
"Notice of EGM"	:	The notice of the EGM as set out on page 60 of this Circular
"NTA"	:	Net tangible assets
"PRC"	:	The People's Republic of China, excluding Hong Kong and Macau Special Administrative Region
"Shareholder's Loan"	:	An existing interest-free shareholder's loan of approximately RMB 21.23 million, as at the Latest Practicable Date, owing by Hebei Yinguang to the Vendor
"Shareholder(s)"	:	Registered holder(s) of Shares, except that where the registered holder is the CDP, this term shall, in relation to such Shares, mean the persons whose direct Securities Accounts maintained with the CDP are credited with the Shares
"Shareholders' Mandate"	:	A general mandate from the Shareholders to authorise the Group to enter into transactions with the Interested Persons as set out in this Circular, upon and subject to the terms of such mandate
"Shares"	:	Ordinary shares in the share capital of Fabchem
"subsidiary"	:	Has the meaning ascribed to it in the Companies Act
"Threshold 1"	:	3% of the latest audited NTA of a listed company
"Threshold 2"	:	5% of the latest audited NTA of a listed company
"Valuation Report Summary"	:	A summarised valuation report dated 1 May 2008 issued by the Valuer and set out in Appendix B of this Circular

Currencies, Units of Measurements and Others

"RMB"	:	Renminbi, the lawful currency of PRC
"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:	**Registered Office:**
Dr Lim Seck Yeow Sun Bowen Bao Hongwei Peter Neville Hogan Alan Grace Ong Tai Tiong Desmond Lim Hui Min John Wong Joo Wan	36 Carpenter Street Singapore 059915

Date: 29 August 2008

To: The Shareholders of Fabchem China Limited

Dear Sir/Madam

(1) THE PROPOSED ACQUISITION OF THE ENTIRE EQUITY INTEREST IN HEBEI YINGUANG CHEMICAL CO., LTD. BY A WHOLLY-OWNED SUBSIDIARY OF THE COMPANY; AND

(2) THE PROPOSED SHAREHOLDERS' MANDATE FOR INTERESTED PERSON TRANSACTIONS

1. INTRODUCTION

1.1 On 19 December 2007, the Directors announced (the "Announcement") that the Purchaser, a wholly-owned subsidiary of Fabchem, entered into an equity purchase agreement dated 19 December 2007 (the "Agreement") with the Vendor pursuant to which the Purchaser agreed, subject to the satisfaction or waiver of the Conditions, to acquire the entire equity interest in Hebei Yinguang for the Consideration. A copy of the Announcement is available on the website of SGX-ST at www.sgx.com.

1.2 The Acquisition will allow Fabchem to acquire a viable business with a strong foothold in supplying ammonium nitrate to manufacturers in the explosive manufacturing market in the PRC, a sector identified by the Directors as a growing market.

1.3 The purpose of this Circular is to provide Shareholders with the relevant information pertaining to the Acquisition including, *inter alia*, the salient terms and conditions of the Acquisition, information on Hebei Yinguang, the rationale and the financial effects of the Acquisition. The approval of the Shareholders for the Acquisition will be sought at the EGM.

2. THE ACQUISITION

2.1 Pursuant to the Agreement, the Company will acquire from the Vendor the entire equity interest of Hebei Yinguang representing one hundred percent (100%) of Hebei Yinguang's registered capital for the Consideration, the latter comprising the value of the registered capital of RMB 9 million and the Shareholder's Loan. The salient terms of the Agreement are set out below.

2.2 **Conditions** The completion of the Acquisition is conditional upon*, inter alia*, the fulfilment or waiver of the following conditions (each a "Condition" and collectively, the "Conditions") on or before Completion including, amongst others, the following:-

i. the results of such legal and financial due diligence investigations on Hebei Yinguang conducted by the Purchaser and its advisers or representatives, being satisfactory to the Purchaser in its sole and absolute discretion;

ii. the approval of each of the Purchaser's shareholders at a general meeting and approval of the board of directors of the Purchaser in respect of the transactions contemplated hereunder shall have been first obtained;

iii. all other necessary consents and approvals, if any, being granted and not withdrawn or revoked by third parties (including without limitation, government bodies, stock exchange and other relevant authorities having jurisdiction over the transactions contemplated under the Agreement) and if such consents are obtained subject to any condition(s) and where such condition(s) affect any of the Parties, such condition(s) being acceptable to the Party concerned and, if such condition(s) are required to be fulfilled before Completion, such condition(s) being fulfilled before Completion;

iv. the execution of a loan repayment agreement between the Fertilizer Company and the Purchaser relating to the repayment of the Existing Loan to the Fertilizer Company by Hebei Yinguang after Completion on such terms and conditions as shall be acceptable to the Purchaser (refer to Section 2.5 below for details of the loan repayment schedule);

v. the execution and delivery by the Vendor of a deed of assignment, the terms of which shall be acceptable to the Purchaser, in respect of the assignment of the Shareholder's Loan to the Purchaser.

As the Acquisition is also an Interested Person Transaction under the Listing Manual and the aggregate value of the Acquisition exceeds Threshold 2, that is, 5% of the latest audited NTA of the Group, for purposes of Chapter 9 of the Listing Manual, Independent Shareholders' approval is also required for the Acquisition.

2.3 **The Consideration** The Consideration was arrived at on a willing buyer-willing seller basis and determined based on the aggregate amount of the equity interest injected into Hebei Yinguang by the Vendor as working capital of RMB 9 million as at the date of the Agreement and the Shareholder's Loan as at the date of the Agreement. The Shareholder's Loan will be assigned to the Purchaser as part of the Acquisition.

The Consideration will be satisfied by means of cash payment in three (3) tranches as follow:-

i. RMB 9,000,000 within one (1) week from the Completion Date;

ii. approximately RMB 15.13 million representing part of the Shareholder's Loan on the date which is three (3) months after the Completion Date; and

iii. approximately RMB 6.10 million representing the remaining part of the Shareholder's Loan at such time when Hebei Yinguang is able to procure local bank borrowings for purposes of the Ammonium Nitrate Expansion Plan (as defined herein) (please refer to the Section 6.2 entitled "Information and Business Overview of Hebei Yinguang" for more information in this regard).

The Shareholder's Loan increased to approximately RMB 21.23 million as at the Latest Practicable Date from RMB 15,126,316.74 as at the date of the Agreement. The Shareholder's Loan to Hebei Yinguang was used for purposes of the payment of operating expenses of Hebei Yinguang, part payment of the consideration for the Asset Transfer (defined in Section 6.1 below) by Hebei Yinguang to the Fertilizer Company and the funding of Ammonium Nitrate Expansion Plan (as defined herein). Up to the Latest Practicable Date, Hebei Yinguang has not repaid any part of the Shareholder's Loan.

The first and second tranches of the Consideration under sub-paragraphs (i) and (ii) above will be satisfied using internally generated funds. The third tranche under sub-paragraph (iii) above will be satisfied using local bank borrowings procured by Hebei Yinguang as mentioned in the said sub-paragraph (iii).

Pursuant to the terms of the Agreement and as referred to under Section 2.2(v) above, the Shareholder's Loan will be assigned to the Purchaser on the Completion Date. As such, the Shareholder's Loan would be assumed by the Purchaser and result in the approximately RMB 21.23 million being owed by Hebei Yinguang to the Purchaser.

2.4 **Indemnity provided by the Vendor.** Pursuant to the Agreement, the Vendor undertakes to indemnify, defend and hold harmless the Purchaser, its successors, or assignees, at the sole discretion of the Purchaser, from and against (i) any and all losses, damages, charges, deficiencies, penalties, claims, demands, actions, suits or proceedings, settlements and compromises relating thereto and reasonable attorneys' fees and expenses in connection therewith, and (ii) any increase in liability or decrease in assets of the Company, relating to, resulting from or arising out of any inaccuracy or breach of any representation or warranty of the Vendor contained in the Agreement or in any agreement, certificate or other document delivered pursuant to the Agreement.

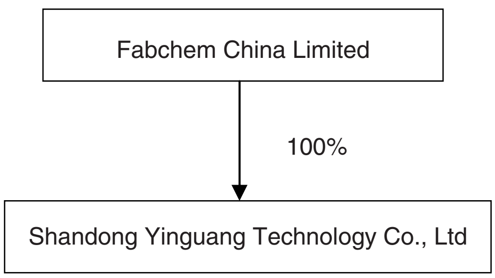
2.5 **Existing Loan Repayment Schedule.** Pursuant to and in accordance with an asset purchase contract dated 3 January 2007 (as supplemented by a supplemental agreement dated 14 July 2007), Hebei Yinguang purchased its current business and assets from the Fertilizer Company; the outstanding purchase price for the said purchase is equivalent to the Existing Loan due from and owing by Hebei Yinguang to the Fertilizer Company. As at the Latest Practicable Date, the Existing Loan decreased from RMB 34,129,014.56 (as at the date of the Agreement) to approximately RMB 27.2 million due to partial repayments of the Existing Loan between the date of the Agreement to the Latest Practicable Date. The repayment schedule of the Existing Loan to be encapsulated within the loan repayment agreement referred to in Section 2.2(iv) of this Circular will be approximately as follows:-

Within 3 months from the Completion Date	:	RMB 1.9 million
Within 6 months from the Completion Date	:	RMB 15.3 million
Within 12 months from the Completion Date	:	RMB 10.0 million
Total	:	RMB 27.2 million

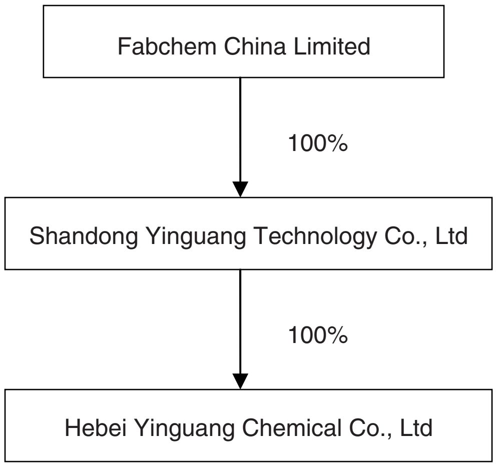
The Existing Loan is not part of the Consideration. The Existing Loan will be repaid using internally generated funds.

2.6 **Group Structure**

The Group's current structure is as follows:



Upon Completion, the structure of the Group will be as follows:



3. THE PROPOSED SHAREHOLDERS' MANDATE

The Group also proposes, subject to the approval of the Shareholders at the EGM, to adopt a general mandate to authorise the Group to enter into certain transactions with Interested Persons. Information relating to the proposed adoption of the said general mandate is provided to Shareholders in this Circular.

Two of Hebei Yinguang's main customers, Xinhua and Qianfeng, the sales to which represent approximately 34.6% and 26.5% of Hebei Yinguang's revenue from 1 April 2007 to 31 March 2008, are related to our controlling shareholder and director, Sun Bowen. As at the Latest Practicable Date, Sun Bowen owns approximately 32.4% of the total issued and paid up share capital of the Company.

Xinhua is 94.0% owned by Sun Bowen personally (the remaining 6.0% owned by employees of Xinhua), whilst Qianfeng is approximately 85.7% owned by the Vendor (the remaining 14.3% owned by employees of Qianfeng). Sun Bowen is also a director of the Vendor and has an aggregate interest of 62.4% of the registered capital of the Vendor as at the Latest Practicable Date. Xinhua and Qianfeng are therefore associates of Sun Bowen. Accordingly, upon the completion of the Acquisition, transactions entered into between the Group and Xinhua and Qianfeng are considered to be Interested Person Transactions within the meaning of Chapter 9 of the Listing Manual.

As at the Latest Practicable Date, Bao Hongwei, a director and 4.8% shareholder of the Company, is also a director of the Vendor and has an interest of 6.0% of the registered capital of the Vendor.

Aggregate sales of ammonium nitrate to these two companies are approximately RMB 27.0 million for the 12 months period from 1 April 2007 to 31 March 2008. The Group's latest audited NTA as of 31 March 2008 is RMB 274.5 million and 5% thereof will be approximately RMB 13.7 million. As such, the said 12 months sales to these two companies have exceeded the 5% threshold as prescribed under Chapter 9 of the SGX-ST Listing Manual. Upon completion of the Acquisition, the sale of ammonium nitrate by Hebei Yinguang to Xinhua and Qianfeng will continue and will be Interested Person Transactions which require shareholders' approval.

Provenance Capital Pte. Ltd. has been appointed as the independent financial adviser to the Independent Directors to render an opinion as to whether the review procedures proposed in relation to the Shareholders' Mandate are adequate to ensure that the sale of ammonium nitrate to Xinhua and Qianfeng will be transacted on normal commercial terms and will not be prejudicial to the interests of the Company and/or its minority Shareholders.

4. REQUIREMENTS OF CHAPTER 10 OF THE LISTING MANUAL

4.1 **General Rule under Chapter 10 of the Listing Manual.** Under Rule 1013 of the Listing Manual, it is provided that where any of the relative figures computed on the bases set out in Rule 1006 of the Listing Manual exceeds 20%, the transaction is classified as a major transaction. Rule 1014 of the Listing Manual further states that a major transaction must be made conditional upon the approval of shareholders in a general meeting.

4.2 Application of Rule 1006 of the Listing Manual. The relative figures computed under Rule 1006 of the Listing Manual are as follows:-

Rule 1006(a)	
The net asset value of the assets to be disposed of compared with the Group's[i] net asset value:	*Not applicable*
Rule 1006(b)	
The net profits[ii] attributable to the assets acquired or disposed of compared with the Group's net profits:	*0.09%* [iii]
Rule 1006(c)	
The aggregate value of the consideration given or received compared with the issuer's market capitalisation on 18 December 2007, being the market day preceding the date of the Agreement.	*15.3%*[iv]
Rule 1006(d)	
The number of equity securities issued by the issuer as consideration for an acquisition, compared with the number of equity securities previously in issue.	*Not applicable*

Notes:

(i) For the purposes of this Clause 3.2 (Application of Rule 1006 of the Listing Manual), "Group" means the Company and its subsidiaries.

(ii) Under Rule 1002(3)(b), "net profits" means profit or loss before income tax, minority interests and extraordinary items.

(iii) Hebei Yinguang only commenced its manufacturing activities in April 2007. Hebei Yinguang recorded a profit of approximately RMB 0.053 million for the first 12 months ended 31 March 2008.

(iv) This is based on the Consideration of RMB 30.23 million and also the Existing Loan, compared against the Company's market capitalisation on 18 December 2007 of RMB 374.16 million (based on an exchange rate of S$1.00 : RMB 5.0761). Excluding the Existing Loan, the ratio would have been 8.1%.

Since the relative figures for Rule 1006(c) does not exceed 20%, the Acquisition is not regarded as a major transaction pursuant to Rule 1013 of the Listing Manual.

5. INTERESTED PERSON TRANSACTION

5.1 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 entities at risk proposes to enter into a transaction with its interested persons, shareholders' approval and/or an immediate announcement is required in respect of that transaction if its value is equal to or exceeds certain financial thresholds. In particular, shareholders' approval (in addition to an immediate announcement) is required where:

(a) the value of such transaction with interested persons when aggregated with the values of other transactions previously entered into with the same interested person in the same financial year, equals to or exceeds Threshold 2, such aggregation to exclude any transaction that has been approved by shareholders previously or is the subject of aggregation with another transaction that has been previously approved by shareholders; or

(b) the value of such transaction equals to or exceeds Threshold 2.

For the purposes of aggregation, interested person transactions below S$100,000 each are to be excluded.

5.2 **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.

5.3 **Shareholders' Approval Required for the Acquisition**

The Vendor is an investment holding company.

The Company's controlling shareholder and director, Sun Bowen, is also a director of the Vendor and has an aggregate interest of 62.4% of the registered capital of the Vendor as at the Latest Practicable Date. The Vendor is therefore an associate of Sun Bowen, as defined under the Listing Manual.

As such, Sun Bowen is deemed to be an interested person with respect to the Acquisition and the Acquisition is deemed an Interested Person Transaction within the meaning defined in Chapter 9 of the Listing Manual.

As at the Latest Practicable Date, Bao Hongwei, a director and 4.8% shareholder of the Company, is also a director of the Vendor and has an interest of 6.0% of the registered capital of the Vendor.

The aggregate value of the Acquisition is approximately RMB 30.23 million and represents approximately 11.0% of the latest audited NTA of RMB 274.5 million for the Group as at the financial year ended 31 March 2008. As the aggregate value of the Acquisition exceeds Threshold 2, that is, 5% of the latest audited NTA of the Group, for purposes of Chapter 9 of the Listing Manual, Independent Shareholders' approval is required for the Acquisition.

For the current financial year up to the Latest Practicable Date, the Group has entered into interested person transactions with a subsidiary of the Vendor, namely Feixian Yinguang Magnesium Co., Ltd, and with Feixian Yinguang Transport Co., Ltd which is 80% owned by Sun Bowen, details of which are as follows:

Interested Person Transactions	Value (RMB '000)	As a percentage of latest audited NTA of the Group as at 31 March 2008 (%)
Feixian Yinguang Transport Co., Ltd (Provision of transportation services)	1,192	0.43
Feixian Yinguang Magnesium Co., Ltd (Purchase of magnesium materials)	161	0.06
TOTAL	1,353	0.49

6. INFORMATION ON HEBEI YINGUANG

6.1 History of Hebei Yinguang

The origins of Hebei Yinguang may be traced back to 1975, when the Linxi Fertilizer Factory was established as a state-owned enterprise to undertake the production of synthetic ammonia and ammonium nitrate, under the supervision of the Linxi County Bureau of Economic and Trade and the People's Government of Linxi County.

The key management of Hebei Yinguang, namely, Wu Yuanjie, joined the Linxi Fertilizer Factory at the time of its incorporation. Mr Wu, aged 57, is an Executive Director and General Manager of Hebei Yinguang. Mr Wu joined the Linxi Fertilizer Factory when it was established as a state-owned enterprise in 1975, and oversaw the production and operations of the Linxi Fertilizer Factory until 1994, when he left to engage in the business of cow breeding and production of dairy products. He later in 2003 established the Fertilizer Company to assume the business operations of the Linxi Fertilizer Factory.

Due to its inability to pay debts due, the Linxi Fertilizer Factory applied for bankruptcy to the relevant local authority in 1998.

After the bankruptcy of the Linxi Fertilizer Factory in 2002, Wu Yuanjie returned to Linxi Fertilizer Factory in 2002 when the local county government directed that the key management (including Wu Yuanjie) and employees of the Linxi Fertilizer Factory assume the outstanding obligations of the Linxi Fertilizer Factory and its business operations. To this end and for this purpose, the Fertilizer Company was established by Wu Yuanjie and employees of the Linxi Fertilizer Factory in 2003, as a private company and by converting the debts owing from the Linxi Fertilizer Factory to Wu Yuanjie and such employees into equity interests in the Fertilizer Company. The Fertilizer Company carried on the business and operations of Linxi Fertilizer Factory in the production and sales of carbinol, synthetic ammonia, ammonium bicarbonate, and ammonium nitrate.

In 2005, certain anticipated governmental funding of approximately RMB 16 million did not materialise and consequently, the Fertilizer Company had to cease its operations in February 2006.

On 3 January 2007, the Vendor entered into a sale and purchase of assets agreement with the Fertilizer Company to acquire all its assets and operations (the "**Asset Transfer**"). The consideration for the aforesaid sale and purchase was RMB 50,570,000, of which RMB 23.27 million has been paid by the Vendor as at the Latest Practicable Date through Hebei Yinguang using part of the Shareholder's Loan and Hebei Yinguang's working capital (the remaining amount comprising the Existing Loan). Hebei Yinguang was established by the Vendor for purposes of the said Asset Transfer. The Existing Loan will be repaid by Hebei Yinguang after Completion in accordance with the repayment schedule set out in Section 2.5 of this Circular. After the full repayment of the Existing Loan, the Fertilizer Company will apply to be struck off. The said application for striking off has not been formally commenced yet as at the Latest Practicable Date.

Since the acquisition of the assets and operations of the Fertilizer Company up to the Latest Practicable Date, Hebei Yinguang has not made any asset distribution including declaring any dividends or undertake any capital reduction or similar exercise or any disposal of such assets and operations, and neither were there any injection of funds or capital by the Vendor into Hebei Yinguang, other than the Shareholder's Loan.

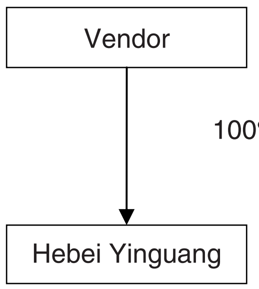
Hebei Yinguang resumed the business and operations of the Fertilizer Company in April 2007.

6.2 **Information and Business Overview of Hebei Yinguang**

Hebei Yinguang, a wholly-owned subsidiary of the Vendor, is incorporated on 1 February 2007 with a total amount of registered capital of RMB 9,000,000, and its registered office is at Chenlin, West of Linxi Country, Linxi County, Hebei Province the PRC.

Hebei Yinguang is principally engaged in the business of manufacturing and selling ammonium nitrate in the PRC under the brand name of "Yinguang Weihe" (“银光卫河”). Ammonium nitrate is a major raw material used primarily for the manufacture of explosives.

As at the Latest Practicable Date, the corporate structure of Hebei Yinguang is as follows:-



As at the Latest Practicable Date, the board of directors of Hebei Yinguang comprises Sun Bowen (孙伯文), Wang Jian (王健), Wu Yuanjie (吴元杰), Chen Hongyu (陈宏宇) and Wang Hongying (王洪英). Wang Jian is in charge operations, Chen Hongyu will oversee the finance matters whilst Wang Hongying the administrative aspect of the business. Wu Yuanjie leads the current management team of Hebei Yinguang largely comprising staff who were previously working at the Fertilizer Company.

Hebei Yinguang owns a manufacturing facility with a total land area of approximately 127,000 square metres and build-up area of 20,000 square metres. Currently, Hebei Yinguang has an annual production capacity of 30,000 tonnes of ammonium nitrate and had only commenced its manufacturing activities in April 2007 after the aforesaid Acquisition.

Hebei Yinguang is in the process of expanding the current production capacity from 30,000 tonnes per annum to 70,000 tonnes per annum (the "Ammonium Nitrate Expansion Plan") by 30 September 2008. The Fertilizer Company had earlier obtained the project approvals and permits from the relevant authorities in the PRC for the Ammonium Nitrate Expansion Plan. According to the relevant approvals granted, the total costs for the Ammonium Nitrate Expansion Plan is estimated to be approximately RMB 25 million of which approximately RMB 5 million has already been invested by the Vendor as part of the Shareholder's Loan (the "Initial RMB 5 million"). Of the said RMB 25 million estimated costs, approximately RMB 19 million will be used to acquire new and additional machinery and equipment, approximately RMB 4.5 million for construction work and approximately RMB 1.5 million for ancillary expenses such as installation and design fees and the like. Upon the completion of the Ammonium Nitrate Expansion Plan, the existing factory premises will be increased by approximately 450 square metres. The balance of approximately RMB 20 million will be financed from local bank borrowings and secured against Hebei Yinguang's assets. As at the Latest Practicable Date, Hebei Yinguang has obtained a separate bank loan of RMB 7.0 million and the Vendor has also granted a further Shareholder's Loan of approximately RMB 6.1 million to Hebei Yinguang (which is currently also subsumed under the Shareholder's Loan) in addition to the Initial RMB 5 million, for purposes of funding the costs and expenses relating to the Ammonium Nitrate Expansion Plan.

As at the Latest Practicable Date, Hebei Yinguang employs approximately 180 full time employees.

The following flowchart shows the simplified production process of ammonium nitrate:

Raw material: Synthetic ammonia → Step 1: Oxidation → Step 2: Dissolution → Step 3: Impregnation with ammonia → Step 4: Compression and evaporation → Finished product: Ammonium Nitrate

6.3 **Trademark**

Hebei Yinguang is engaged in the business of producing and selling ammonium nitrate in the PRC under the brand name of "Yinguang Weihe" (“银光卫河”), the logo of which is depicted below. Hebei Yinguang has submitted application for registration of the trademark "Yinguang Weihe" (银光卫河), to the Trademark Office of the State Administration for Industry and Commerce (国家工商行政管理总局商标局), in June 2007. The application is still pending as at the Latest Practicable Date.

The trademark "Weihe (“卫河”)" depicted below was used by the Fertilizer Company, and has been transferred to Hebei Yinguang on 3 January 2007, together with other assets of the Fertilizer Company. The said transfer has been approved by the Trademark Office of the State Administration for Industry and Commerce (国家工商行政管理总局商标局) in January 2008.

6.4 **Major Suppliers**

The primary raw material used by Hebei Yinguang in the production of ammonium nitrate is liquid ammonia. Details of the major suppliers of such raw material accounting for 5.0% or more of Hebei Yinguang's total purchases for the period from 1 April 2007 to 31 March 2008 are as follows:

Name of Supplier	Approximate percentage of total purchases (%) 1 April 2007 to 31 March 2008
Handan City Xuguang Chemical Co., Ltd. 邯郸市旭光化工有限公司	32.4%
Dezhou Jinchuan Chemical Co., Ltd. 德州金川化工有限公司	25.3%
Shenzhou Shunjie Chemical Co., Ltd 深州顺捷化工有限公司	12.4%

6.5 **Major Customers**

Details of the major customers of Hebei Yinguang accounting for 5.0% or more of Hebei Yinguang's total revenue for the period from 1 April 2007 to 31 March 2008 are as follows:

Name of Customer	Approximate percentage of total revenue (%) 1 April 2007 to 31 March 2008
Tai'an Yinguang Xinhua Chemical Co., Ltd.[1] 泰安银光新华化工有限公司	34.6%
Shandong Yinguang Qianfeng Chemical Co., Ltd.[2] 山东银光前锋化工有限公司	26.5%
Hebei Yunshan Chemical Company Limited by Shares 河北云山化工股份有限公司	8.2%
Hebei Liulingqi Chemical Co., Ltd 河北六0七化工有限公司	5.1%
Shandong Shengshida Chemical Co., Ltd. 山东圣士达化工有限责任公司	5.0%

Notes:

(1) Tai'an Yinguang Xinhua Chemical Co., Ltd is 94.0% owned by Sun Bowen.

(2) Shandong Yinguang Qianfeng Chemical Co., Ltd. is subsidiary of the Vendor. Each of Sun Bowen and Bao Hongwei is a director of the Vendor and owns 62.4% and 6.0% of the registered capital of the Vendor respectively as at the Latest Practicable Date.

6.6 **Risk Factors**

Hebei Yinguang has a limited operating track record

Hebei Yinguang has a limited operating history upon which it may be evaluated. Hebei Yinguang was only incorporated in February 2007 and commenced its manufacturing activities in April 2007. As a result, the evaluation of Hebei Yinguang and its prospects will be based on a limited operating history. It also has limited historical financial data from which to predict its future revenue and expenses. The relatively limited operating history and financial track record of Hebei Yinguang may not be an appropriate basis to evaluate its future prospects and performance. There is no assurance that Hebei Yinguang can sustain profitability or avoid losses in the future and its past operating results may not be indicative of its future financial performance.

Hebei Yinguang may have significant future capital needs which will require additional financing

Hebei Yinguan may need to raise significant additional funds in the future, through public or private financing, to support its growth, undertake acquisitions, develop new or enhanced products, respond to competitive pressures and/or acquire complementary businesses or technologies. There is no assurance that such additional funding, if needed, will be available on acceptable terms.

Furthermore, any debt financing, if available, may involve restrictive covenants, which may limit its operating flexibility. If additional funds are raised through the issuance of equity or equity-linked instruments, the Company may experience a reduction in its effective percentage shareholdings in Hebei Yinguang. In addition, such equity or equity-linked instruments may have rights, preferences or privileges senior to those of Hebei Yinguang's existing shares. Failure to secure adequate funds on acceptable terms will have an adverse impact on its business, its competitiveness and its financial results.

Hebei Yinguang may face uncertainties associated with the expansion of its business

Hebei Yinguang may explore strategic alliances, acquisitions or investment opportunities in business that are complementary to its business. Expansion involves numerous risks, including but not limited to the financial costs of setting up new operations, investment in machinery and equipment and working capital requirements. There can be no assurance that the expanded operations will achieve a sufficient level of revenue which will cover its operational costs and if Hebei Yinguang fails to manage such costs, its profitability and financial position may be adversely affected.

Participation in strategic alliances, acquisitions, or investments similarly involves numerous risks, including but not limited to difficulties in the assimilation of the management, operations, services, products and personnel and the possible diversion of management attention from other business concerns. The successful implementation of its growth strategies depends on its ability to identify suitable partners and the successful integration of their operations with its. There can be no assurance that Hebei Yinguang will be able to execute such growth strategies successfully and if so, the performance of any strategic alliances, acquisitions or investments could fall short of expectations.

Product liability claims and relevant licences, permits and approvals may be revoked or suspended if the products of Hebei Yinguang are found to be unsafe or defective

The ammonium nitrate products from Hebei Yinguang are sold to its customers mainly for production of explosives which are used in the mining, energy exploration and infrastructure construction industries such as coal mining, hydroelectric construction, oil exploration, road and railway construction and large construction projects. In the event that products are found to be unsafe or defective as a result of negligence or omission or wilful action or sabotage, it may be subject to lawsuits and product liability claims for any injury or death to any person or damage to any property that results from the usage of the products, against which we do not have any insurance. Its relevant licences, permits and approvals may also be revoked or suspended in such an event. These consequences will have an adverse impact on the operations and the Group's profitability, reputation and financial condition.

Operations may be affected should Hebei Yinguang fail or be unable to comply with the conditions stipulated in the licences, permits or approvals, or in the event that any of the licences or approvals are not renewed or extended

Hebei Yinguang is required to obtain the relevant licences, permits and approvals from the PRC authorities to carry on its business. These licences, permits or approvals may stipulate conditions which we are required to comply with and the respective authorities conduct random inspections on the premises to ensure that they are in compliance with the relevant regulations. In the event of a breach of any restriction or condition subject to which the licence, permit or approval was granted, the licence, permit or approval may be suspended or revoked. The requirements imposed by the authorities are also subject to change and new requirements may be imposed from time to time. As such, they will have to continuously monitor and ensure compliance with all these existing conditions and ensure that we keep abreast of any new development and requirement. There is no assurance that the requirements set by the authorities will be met at all times. Accordingly, should the licences, permits or approvals be suspended or revoked, they will not be able to continue the production activities, which will have a material and adverse impact on their turnover and profitability.

Accidents, fire, lightning or natural calamities at production and storage facilities or during the transport of the products or raw materials may adversely affect the business operations

The business of Hebei Yinguang involves the handling of explosive chemicals such as liquid ammonia (raw material) and ammonium nitrate (finished product), both of which are susceptible to explosions in certain conditions. Whilst it has introduced stringent safety requirements and regulations governing the production facilities and storage of finished products and raw materials, the possibilities of accidental explosions cannot be eliminated absolutely. The insurance coverage may not be sufficient in the event of a severe incident of explosion at the storage facilities, production facilities, products and process improvement facilities or during the transport of the products or raw materials, which may arise from negligence, non-compliance of the safety procedures by the staff or other reasons. This may also severely disrupt the business operations and the authorities may also revoke the licences for the production of explosives. In the event Hebei Yinguang's licences for the production of ammonium nitrate are revoked by the relevant authorities, we will not be able to manufacture ammonium nitrate and their operations will cease. In addition, a fire, lightning or natural calamities, such as flooding or earthquake, resulting in significant damage to any of the production facilities, raw materials and finished goods and major disruptions to the production processes may have a significant adverse effect on the business, financial conditions and results of operations.

Subject to PRC laws and regulations

As a company incorporated in the PRC, Hebei Yinguang is subject to PRC laws and regulations. The PRC government is still in the process of developing a comprehensive set of laws and regulations in the course of the PRC's transformation from a centrally planned economy to a more free market oriented economy. As the legal system in the PRC is still in a state of flux, laws and regulations or the interpretation of the same may be subjected to change. Furthermore, any change in the political and economic policy of the PRC government may also lead to similar changes in the laws and regulations or the interpretation thereof. Such changes may adversely affect the business and prospects of Hebei Yinguang.

From time to time, changes in laws and regulations or the implementation thereof may also require us to obtain additional approvals and licences from the PRC authorities for the conduct of the operations in the PRC. In such event, we may need to incur additional expenses in order to comply with such requirements. This will in turn affect the financial performance as the business cost will increase. Furthermore, there can be no assurance that such approvals or licences will be granted to us promptly or at all. If we experience delay in obtaining or are unable to obtain such required approvals or licences, the operations and business in the PRC, and hence the overall financial performance and condition, will be adversely affected.

Subject to environmental laws and regulations

As a result of the production activities which will produce industrial wastewater and polluted air, Hebei Yinguang is subject to environmental laws and regulations in the PRC. Changes in environmental regulations could adversely affect us. The PRC environmental authorities have the power to take action against us for failure to comply with the environmental regulations, including the imposition of fines and revocation of licences and land rights. In such event, the business and profitability will be adversely affected. In addition, it is also possible that the PRC governmental authorities will adopt additional or more stringent regulations that would require us to incur additional costs on environmental compliance matters. In the event that these additional costs are incurred in the future, the business and financial performance may be adversely affected.

Outbreak of severe acute respiratory syndrome ("SAR") or other communicable or virulent disease

An outbreak of SARS or other communicable diseases, if uncontrolled, could have a material adverse effect on the operations of Hebei Yinguang. In the event that any of the employees of Hebei Yinguang is infected with such diseases, Hebei Yinguang may be required to temporarily shut down the shop or office that the concerned employee works in. This will have a negative impact on the business of Hebei Yinguang.

Changes in the economic conditions of the PRC

The business of Hebei Yinguang is dependent on the PRC market. Any adverse change in the economic conditions, for whatever reason, in the PRC market may have a negative impact on the demand for the products or may result in a need for them to review the marketing strategies and their future expansion plans. In such an event, the turnover and profitability will be materially and adversely affected.

6.7 **Competition and Competitive Strengths**

The major manufacturers of ammonium nitrate in the PRC are as follows:

Company Name	Location
陕西兴化化学股份有限公司 Shannxi Xinhua Chemical Co., Ltd	陕西 Shaanxi
天脊煤化工集团有限公司 Tianji Coal Chemical Industry Group Co., Ltd	山西 Shanxi
太化集团公司化肥厂物资公司 Taihua Group Co. Fertilizer Factory Material Company	山西 Shanxi
南化氮肥厂 Nanhua Nitrogenous Fertilizer Factory	江苏 Jiangsu
云南解化集团有限公司 Yunnan Jiehua Chemical Group Co., Ltd	云南 Yunnan
柳州化工股份有限公司 Liuzhou Chemical Industry Co., Ltd	广西 Guangxi

The management of Hebei Yinguang believes that its competitive strengths are as follows:

The ammonium nitrate industry has become a restricted industry

According to the latest PRC rules and regulations, the PRC government will no longer issue new licences and permits for the establishment of production facilities for ammonium nitrate. As such, competition within this industry will only be limited to the existing players and our management believe that Hebei Yinguang will stand to benefit from this in the long term.

Experienced management team

Hebei Yinguang has a management team led by Wu Yuanjie who has been involved in the business operations since 1975 and who has accumulated considerable experience in the ammonium nitrate industry. He is supported by dedicated and dynamic staff who possess the necessary qualifications and expertise in running its day-to-day operations and most of them have also been involved in the business operations since 1975. We believe that the valuable knowledge, experience and expertise of its management team will add value and contribute significantly to its business operations.

Strategic location

Hebei Yinguang is located on the border of Shandong Province and Hebei Province, and three large coal mines, namely, Hebei Coal Mine, Xingtai Coal Mine and Handan Coal Mine are all within 100 kilometres distance from Hebei Yinguang. Hebei Yinguang is also situated close to its suppliers of raw material. Arising from its proximity to its customers and suppliers, Hebei Yinguang is able to benefit from lower transportation costs. It is also able to respond to its customers within a shorter time frame.

6.8 **Financial Information**

Hebei Yinguang only commenced its manufacturing activities in April 2007, thus there are no financial figures before 1 April 2007. The following table summaries the financial information of Hebei Yinguang for the financial period from 1 April 2007 to 31 March 2008 are as follows:

(a) Income Statement

RMB '000	**Audited Financial period from 1 April 2007 to 31 December 2007**	**Audited Financial period from 1 January 2008 to 31 March 2008**
Revenue	30,110	14,069
Gross profit	4,566	2,936
(Loss)/Profit before tax[(1)]	(1,155)	1,207
(Loss)/Profit after tax[(1)]	(1,155)	1,207

Note:

(1) Hebei Yinguang was incorporated in February 2007 and only commenced operations in April 2007. One-off incorporation and other related expenses amounted to approximately RMB 1.7 million were expensed-off during December 2007, causing the loss position in 2007.

Hebei Yinguang commenced its operations in April 2007. Revenue from the sale of ammonium nitrate for the first 9-month period from 1 April 2007 to 31 December 2007 is approximately RMB 30.1 million and revenue for the 3-month period from 1 January 2008 to 31 March 2008 is approximately RMB 14.1 million.

Gross profit margin for the 3-month period ended 31 March 2008 is approximately 20.9% which is approximately 5.7 percentage points higher than the first 9-month period ended 31 December 2007 of 15.2%. The higher gross profit margin is mainly due to the better efficiencies obtained from the production of ammonium nitrate.

The operating expenses of Hebei Yinguang mainly comprise of staff costs and transportation charges.

Hebei Yinguang recorded a net loss of approximately RMB 1.16 million for the first nine months ended 31 December 2007 mainly due to one-off incorporation and other non-recurring expenses of approximately RMB 1.33 million and RMB 0.41 million respectively. Excluding the one-off incorporation and other expenses, Hebei Yinguang would have recorded a net profit of approximately RMB 0.58 million for the 9 months ended 31 December 2007 or a net profit of approximately RMB 1.79 million for the 12 months ended 31 March 2008.

(b) **Balance Sheet**

RMB '000	Audited As at 31 December 2007	Audited As at 31 March 2008
ASSETS		
Current assets	13,541	17,650
Property, plant and equipment	49,272	49,786
Total assets	62,813	67,436
LIABILITIES AND EQUITY		
Current liabilities	20,839	27,678
Non-current liabilities	34,129	30,705
Capital and reserves	7,845	9,053
Total Liabilities and equity	62,813	67,436

The Group had commissioned Valuer to undertake an independent valuation on Hebei Yinguang based on discounted cashflow method and on Hebei Yinguang's fixed assets.

Based on the said valuation by the Valuer as at 29 February 2008, the market valuation of 100% equity interest in Hebei Yinguang is approximately RMB 11.0 million, arrived at based on the discounted cash flow method; the market valuation of the fixed assets of Hebei Yinguang is approximately RMB 44.0 million, based on, *inter alia*, the replacement cost of new assets, accrued depreciation and comparable transactions; the market valuation of certain off-balance sheet fixed assets (consisting of pipelines, fitting/accessories, power cables and components of the production lines, such as tanks and boilers and the like) which were not recorded in Hebei Yinguang's books is approximately RMB 13.7 million. These off-balance sheet fixed assets, which form an integral part of its machinery and equipment for its manufacturing activities, were transferred to Hebei Yinguang pursuant to the asset purchase contract dated 3 January 2007 from the Fertilizer Company (however at the time of the said transfer, such fixed assets were not recorded in the accounts of the Fertilizer Company, and as such, when Hebei Yinguang acquired them, they were also not recorded in the accounts of Hebei Yinguang. To date, such off-balance sheet fixed assets have been duly recorded and accounted for in the accounts of Hebei Yinguang).

Please refer to the Valuation Report Summary issued by the Valuer under Appendix B of this Circular.

6.9 **Permits and Licences**

The key permits and licences pertaining and specific to the business operations of Hebei Yinguang include the following:-

Licence/Permit/Approval	**Description**	**Expiry date**
Production Safety Permit (安全生产许可证)	For production and sale of ammonium nitrate	28 June 2009
Sales Permit for Civil Explosive Substance (民用爆炸物品销售许可证)	For sale of products relating to civil explosive substance	30 April 2011

Licence/Permit/Approval	Description	Expiry date
Pollutant Discharge Permit (排放污染物许可证)	This permit is to ensure that our waste disposal method is in accordance with the waste disposal standards prescribed by the relevant environmental protection inspection authorities	22 November 2008

Hebei Yinguang also possesses the following general permits and licences:-

Licence/Permit/Approval	Description	Expiry date
Code Certificate For Enterprise Legal Entity (组织机构代码证)	A unique legal code for identification in the PRC	4 February 2011
Social Insurance Registration Form (社会保险登记表)	In respect of the application to the relevant social insurance administration authority to obtain a social insurance file number for social insurance payment to employees	No expiry date
State Tax Registration Certificate (国家税务登记证)	A tax file number for tax payment as required by the State Tax Bureau	No expiry date
Local Tax Registration Certificate (地方税务登记证)	A tax file number for tax payment as required by the Local Tax Bureau	No expiry date

To best of the Directors' knowledge and based on the legal due diligence exercise conducted, Hebei Yinguang has obtained all the requisite permits and licenses for its business operations in the PRC and is in compliance with the relevant PRC environmental laws and regulations.

7. RATIONALE FOR THE ACQUISITION

The Company is of the view that the Acquisition will be beneficial to the Group for the following reasons:

Enhanced product range

Currently the main revenue of our Group is derived solely from initiation systems, i.e. boosters, seismic charges, detonating cords, detonators, etc. As one of our Group's long term business development strategies, we intend to expand into the production and supply of ammonium nitrate (being the raw material for the manufacture of explosives). This additional capability and product would differentiate our Group from other commercial explosive devices manufacturers in the PRC, most of whom do not engage in production of such raw material. The Company believes that such expansion of product range will also serve to secure the Group's position in further developing its commercial explosives business and facilitate any possible future integration within the explosives industry.

Competitive advantage – Barrier to entry

As stated above, according to the latest PRC rules and regulations, the PRC government will no longer issue new licences and permits for the establishment of production facilities for ammonium nitrate. As such, competition within this industry will only be limited to the existing players and our management believes that Hebei Yinguang will stand to benefit from this in the long term.

Expansion of our Group's existing business

By supplying ammonium nitrate to the explosives manufacturers in Hebei's neighbouring provinces and leveraging upon Hebei Yinguang's existing clientele and network, the Group is also able to establish in-roads into and explore new territories and markets where we currently do not have a presence in for our initiation system business. This is in line with the Group's market expansion strategy.

8. FINANCIAL EFFECTS OF THE ACQUISITION

The pro forma financial effects of the Acquisition on the Company are for illustrative purposes only and do not reflect the actual future financial position of the Company following the Completion of the Acquisition. The pro forma financial effects in this Section 8 are based on the audited consolidated financial statements of the Company for the financial year ended 31 March 2008 and assuming that the Completion had been completed on 1 April 2007 for the purpose of the financial effect on earnings per share ("EPS") and 31 March 2008 for the purpose of the financial effect on the net tangible assets ("NTA") and gearing.

8.1 Share Capital

As at the Latest Practicable Date, the issued and paid-up share capital of the Company is RMB 116,849,000 comprising 234,000,000 Shares. The Acquisition will have no impact on the issued and paid-up share capital of the Company.

8.2 Earnings Per Share

The pro forma financial effects of the Acquisition on the earnings per share of the Company for FY2008, assuming that the Acquisition had been effected as at 1 April 2007 are as follows:-

	Before Acquisition	After acquisition
Net profit after tax (RMB '000)	60,308	60,361 (1)
Weighted average number of shares ('000)	234,000	234,000
Earnings per Share (RMB cents)	25.77	25.80

Note:

(1) Net profit after tax computed based on the latest announced financial statements for the financial year ended 31 March 2008, and the financial results for the target company for the 12 months from 1 April 2007 to 31 March 2008.

8.3 Net Tangible Assets

The pro forma financial effects of the Proposed Acquisition on the net tangible assets ("NTA") of the Company as at 31 March 2008, assuming that the Proposed Acquisition had been effected as at 31 March 2008 are as follows:-

	NTA (RMB'000)	NTA per share (RMB cents)
Before adjusting for the Acquisition	274,478	117.3
After adjusting for the Acquisition(1)	274,478	117.3

Note:

(1) Assuming that no positive goodwill will arise from the Acquisition which can only be ascertained after the purchase price allocation exercise has been performed at Completion.

8.4 **Gearing**

The pro forma financial effects of the Acquisition on the gearing of the Company for FY2008, assuming that the Acquisition had been effected as at 31 March 2008 are as follows:

Gearing(1)	Times
Before adjusting for the Acquisition	Nil
After adjusting for the Acquisition	Nil (2)

Notes:

(1) Includes loans or borrowings from financial institutions.

(2) As at the Latest Practicable Date, the gearing would have been 2.6% after taking into account the bank loan procured by Hebei Yinguang of an aggregate amount of RMB 7 million as at the Latest Practicable Date.

9. INTERESTS OF DIRECTORS AND SUBSTANTIAL SHAREHOLDERS IN THE ACQUISITION

9.1 **Interests of Directors and Substantial Shareholders in the Acquisition.**

Each of the Company's major shareholder and director, Sun Bowen and Bao Hongwei, is also a director of the Vendor and has an aggregate direct and indirect interest of 62.4% and 6.0% of the registered capital of the Vendor as at the Latest Practicable Date. As such, each of Sun Bowen and Bao Hongwei is deemed to be an interested person with respect to the Acquisition and will abstain from making any recommendation and voting on the ordinary resolutions in respect with the Acquisition to be proposed at the EGM and will not accept nominations as proxy or otherwise for voting at the EGM in respect of such resolutions.

As at the Latest Practicable Date, the interests of Directors and substantial shareholders in the issued and paid-up share capital of the Company are as follows: -

Name of Director/ Substantial Shareholder	Direct interest No. of Shares	Direct interest %	Deemed interest No. of Shares	Deemed interest %
Directors				
Sun Bowen(1)	–	–	75,700,000	32.35
Bao Hongwei(2)	2,588,000	1.11%	8,604,000	3.68
Dr Lim Seck Yeow(3)	–	–	22,334,000	9.54
Substantial Shareholders				
Fortsmith Investments Limited	75,700,000	32.35	–	–
DNX Australia Pty Limited	69,966,000	29.90	–	–
Fivestar Limited	22,334,000	9.54	–	–
Tan Geok Bee(4)	–	–	22,334,000	9.54

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 Singapore 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 Singapore 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 Singapore Companies Act.

(4) Mdm Tan Geok Bee is deemed to be interested in the shares held by Fivestar Limited by virtue of Section 7 of the Singapore Companies Act.

Save as disclosed above, none of the directors or controlling shareholders of the Company has any interest, direct or indirect, in the Agreement and the Acquisition.

9.2 **Appointment of directors in the Company**

None of the agreements relating to the Acquisition provides for the appointment of any directors to the Board of Directors of the Company pursuant to or in connection with the Acquisition.

10. INDEPENDENT FINANCIAL ADVISER'S OPINION IN RESPECT OF THE ACQUISITION

Provenance Capital Pte. Ltd. has been appointed as the Independent Financial Adviser to the Independent Directors of the Company to opine on whether the financial terms of the Acquisition as set out in Section 2 of this Circular are on normal commercial terms and are not prejudicial to the interests of the Company and the minority Shareholders. A copy of the letter from the Independent Financial Adviser is set out in Appendix A of this Circular and Shareholders are advised to read the Independent Financial Adviser's letter carefully.

Taking into consideration the factors set out in paragraph 7.1 of the letter from the Independent Financial Adviser, Provenance Capital Pte. Ltd. is of the opinion that the financial terms of the Acquisition as set out in Section 2 of this Circular are on normal commercial terms and are not prejudicial to the interests of the Company and the minority Shareholders.

11. OVERVIEW OF XINHUA AND QIANFENG

Xinhua

Xinhua, 94% owned by Mr Sun Bowen, is incorporated on 4 August 2003 with a total amount of registered capital of RMB 5.1 million as of the Latest Practicable Date. Xinhua's registered office is at Wanguanzhuang Road Xishou Taishan Road, Tai'an City, Shandong Province, PRC.

Xinhua is principally engaged in the business of manufacturing and sale of TNT (Trinitrotoluene) explosives, ANFO (Ammonium Nitrate Fuel Oils) explosives and emulsion explosives in the PRC. Based on its management accounts for the financial year ended 31 December 2007, the net asset value of Xinhua was approximately RMB 9.8 million, its revenue approximately RMB 57.0 million and its profit after tax approximately RMB 3.1 million.

Qianfeng

Qianfeng, a subsidiary of the Vendor, is incorporated on 7 October 1998 with a total amount of registered capital of RMB 5.266 million as of the Latest Practicable Date. Qianfeng's registered office is at Fangshan Village, Qufu City, Shandong Province, PRC.

Qianfeng is principally engaged in the business of manufacturing and sale of TNT explosives, ANFO explosives and emulsion explosives in the PRC. Based on its management accounts for the financial year ended 31 December 2007, the net asset value of Qianfeng was approximately RMB 19.5 million, its revenue approximately RMB 44.9 million and its profit after tax approximately RMB 1.0 million.

12. CLASSES OF INTERESTED PERSONS

The Shareholders' Mandate applies to the Interested Person Transactions which are carried out with Xinhua and Qianfeng, which are related to our major shareholders and directors, Sun Bowen and Bao Hongwei, further details of which are set out in Section 3 above, and are therefore deemed to be Interested Persons.

Transactions with Interested Persons which do not fall within the ambit of the Shareholders' Mandate shall be subject to the relevant provisions of Chapter 9 of the Listing Manual.

13. NATURE OF INTERESTED PERSON TRANSACTIONS

The Interested Person Transactions which will be covered by the Shareholders' Mandate are in connection with the provision to, or obtaining from, of products and services in the normal course of business of the Group. These Interested Person Transactions are recurrent transactions of a revenue or trading nature or those which are necessary for the Group's day-to-day operations, but not in respect of the purchase or sale of assets, undertakings or businesses.

For the purposes of the Shareholders' Mandate, the proposed Interested Person Transactions will include all sales of ammonium nitrate from Hebei Yinguang to Xinhua and Qianfeng (the "AN Sale Transactions").

14. RATIONALE FOR AND BENEFIT OF THE SHAREHOLDERS' MANDATE

14.1 Rationale

(a) Upon completion of the Acquisition, it is envisaged that Hebei Yinguang will in its ordinary course of business continue to enter into the AN Sales Transactions with Xinhua and Qianfeng 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 Hebei Yinguang, and could arise at any time.

(b) Given that the AN Sale Transactions are of a trading nature and are expected to be recurrent and occur at any time, and due to the time-sensitive nature of these transactions, to allow Hebei Yinguang to undertake such transactions in a more expeditious manner, our Directors are seeking the approval of our Shareholders for the adoption of the Shareholders' Mandate for the purposes of Chapter 9 of the Listing Manual and for Hebei Yinguang to enter into the AN Sale Transactions, provided that such transactions are made 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.

14.2 Benefit

(a) The Shareholders' Mandate (and its subsequent renewal thereafter on an annual basis) will enhance the ability of companies in the Group to pursue business opportunities which are time-sensitive in nature, and 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 company in the Group into such transactions. This will substantially reduce the expenses associated with the convening of the general meetings on an *ad hoc* basis, improve administrative efficacy considerably, and allow major manpower resources and time to be channelled towards attaining other corporate objectives.

(b) The Shareholders' Mandate is to facilitate transactions in the normal course of business of Hebei Yinguang that are transacted from time to time with Xinhua and Qianfeng, provided that they are carried out 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.

15. PROCEDURES AND METHODS FOR REVIEW

15.1 Review Procedures

Having regard to the nature of the AN Sale Transactions, and the criteria in establishing the review procedures which is to ensure that such review procedures are adequate and/or commercially practicable in ensuring that the AN Sale Transactions are conducted 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 following review procedures will be implemented:

(a) 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 an Interested Person), 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 ammonium nitrate sales of similar nature by Hebei Yinguang to non-interested third parties will be used as comparison. The selling prices shall not be lower than the lowest sale price of the other transactions with non-interested third parties;

(b) the transactions will be entered into with the Interested Person on terms which are no more favourable to the Interested Person 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, customer requirements and specifications, duration of contract, preferential rates, discounts or rebates for bulk purchases, and cost for freight;

(c) in relation to any sale of ammonium nitrate to the Interested Person where it is impractical or impossible to compare our selling prices to unrelated third parties for similar products, and 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, customer requirements and specifications, duration of contract, preferential rates, discounts or rebates for bulk purchases, and cost for freight will be taken into account.

15.2 **Additional Review Procedures**

(a) Chapter 9 of the Listing Manual does not require transactions below S$100,000 in value to be included under the Shareholders' Mandate. However, our Audit Committee will review, on a yearly basis, all AN Sale Transactions that have a value below S$100,000.

(b) In addition, a threshold limit equivalent to 5% of the latest audited NTA of our group (equivalent to approximately RMB 13.7 million based on our group's audited NTA of approximately RMB 274.5 million as at 31 March 2008) for each Interested Person Transaction (the "**Threshold Limit**") will be applied. The aggregate value of AN Sale Transactions to Xinhua for the 12-month period from 1 April 2007 to 31 March 2008 was approximately RMB 15.3 million, while that for Qianfeng was approximately RMB 11.7 million. Both Xinhua and Qianfeng are major customers of Hebei Yinguang. The Threshold Limit has been set and is regarded as reasonable by our Independent Directors based on (i) the anticipated value of potential AN Sale Transactions that Hebei Yinguang may enter into with Xinhua and Qianfeng going forward and (ii) the review procedures set out above in Section 15.1 and the various approval limits to be implemented for such AN Sale Transactions as set out below in this Section 15.2.

(c) Where an AN Sale Transaction exceeds the Threshold Limit, such transaction must be reviewed and approved by our Audit Committee prior to the Hebei Yinguang entering into such a transaction.

(d) Where an AN Sale Transaction does not exceed the Threshold Limit, such transaction does not require our Audit Committee's prior approval. However, these transactions with a value equivalent to or greater than S$100,000 will be reviewed on at least a half-yearly basis by our 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 of the transactions with the Interested Persons in relation to the sale of ammonium nitrate 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) as follows:

Approval Limits	**Relevant Approving Authority**
Transactions above S$100,000 but not exceeding 3% of the Group's NTA	1 Director and the head of finance (China operations)
Transactions above 3% of the Group's NTA but not exceeding the Threshold Limit	2 Directors and the head of finance (China operations)
Transactions above the Threshold Limit	Audit Committee

15.3 **Interested Person Transaction Register**

Each AN Sale Transaction will be properly documented and our Company will maintain a register of all such Interested Person Transactions entered into with the Interested Person. The head of finance (China Operations) will ensure that the Interested Person Transaction Register is properly updated and review the Interested Person Transactions to ensure that all Interested Person Transactions are conducted on normal commercial terms and are not prejudicial to the interests of our Company and our minority Shareholders.

15.4 **Periodic Review**

(a) Our Audit Committee will carry out reviews of all AN Sale Transactions of a value equivalent to or greater than S$100,000 on at least a half-yearly basis, and AN Sale Transactions of a value below S$100,000 on a yearly basis to (i) ensure that the established guidelines and review procedures for the AN Sale Transactions 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 AN Sale 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.

(b) 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 AN Sale Transactions 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 Xinhua and Qianfeng. During the period prior to obtaining a fresh mandate from Shareholders, all AN Sale Transactions will be subject to prior review and approval by our Audit Committee.

15.5 **Interested Audit Committee Member to Abstain**

In the event that a member of our Audit Committee has an interest in any AN Sale Transaction under consideration, he will abstain from approving that particular AN Sale Transaction to ensure that it will be conducted on normal commercial terms. Approval of that particular AN Sale Transaction will accordingly be undertaken by the remaining members of our Audit Committee.

15.6 **Further Compliance**

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

15.7 **Disclosure**

Pursuant to Chapter 9 of the Listing Manual, our Company will disclose the Shareholders' Mandate in our annual report, giving details of the aggregate value of the Interested Person Transactions conducted pursuant to the Shareholders' Mandate for the current financial year.

In addition, our Company will announce the aggregate value of the Interested Person Transactions conducted pursuant to the Shareholders' Mandate for the financial periods which it is required to report on (pursuant to Rule 705 of the Listing Manual) within the time required for the announcement of such report.

Pursuant to Rules 907 and 920(1) of the Listing Manual, our Company is required to:

(a) disclose in our Company's annual report the aggregate value of transactions conducted pursuant to the Shareholders' Mandate during the current financial year, as well as in the annual reports for the subsequent financial years during which the Shareholders' Mandate is in force; and

(b) announce the aggregate value of transactions conducted pursuant to the Shareholders' Mandate for the relevant financial periods which it is required to report.

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.

15A POTENTIAL CONFLICTS OF INTERESTS

Our Company produces and sells initiation systems, in particular explosive devices, industrial fuse and initiating explosive devices and industrial detonators. Hebei Yinguang produces and sells ammonium nitrate, used in the manufacture of explosives. The Vendor (through Qianfeng) and Xinhua, are primarily engaged in the manufacture of explosives.

Our Board is of the view that the respective businesses are separate and distinct and compete within different markets and segments within the explosives industry. Nonetheless, to address any potential conflicts of interests that may arise between our Group and the Vendor and Qianfeng and Xinhua, as a result of the association of Sun Bowen and Bao Hongwei with the Vendor, details of which are set out in Section 3 above, each of the Vendor, Qianfeng and Xinhua has given an undertaking to our Company with effect from Completion as follows:-

(a) each of the Vendor, Qianfeng and Xinhua will not, directly or indirectly and in any jurisdiction, compete with the business of our Group (including that of Hebei Yinguang);

(b) in the event that the Group in any manner engages in the business of the manufacture of explosives similar or identical to that of the Vendor, each of the Vendor, Qianfeng and Xinhua will cease any and all business activities in this regard.

Each of Sun Bowen and Bao Hongwei has also undertaken to procure that the Vendor, Qianfeng and Xinhua (as the case may be), fulfils its aforesaid undertakings.

Should a conflict of interest situation arise in Sun Bowen and Bao Hongwei acting as non-executive directors of the Vendor, and Sun Bowen as non-executive director of Qianfeng and Xinhua, vis-à-vis our Group, Sun Bowen and Bao Hongwei are required to disclose such matters of conflict of interests and abstain from voting on such matters in our Company. Furthermore, in the event that each of the Vendor, Qianfeng and Xinhua proposes any resolution which could result in a potential conflict of interest arising between our Group and the Vendor, Qianfeng and Xinhua, each of Sun Bowen and Bao Hongwei is required to, subject to applicable laws, exercise his voting rights in the Vendor, Qianfeng and Xinhua (as the case may be) to vote against such resolution, if such resolution is prejudicial to the interests of our Company and/or Hebei Yinguang.

To ensure that the above undertaking is monitored and complied with, our Audit Committee and our Independent Directors will, on a regular basis, review whether the undertaking provided by each of the Vendor, Qianfeng and Xinhua has been breached or could potentially be breached. As and when our Independent Directors receive information or become aware that the undertaking referred to above has been or could potentially be breached, our Independent Directors and Audit Committee will review the matter, and where necessary, obtain legal advice as to the appropriate measures that should be taken to address such breach or potential breach, and to take necessary measures to safeguard our Group's position in light of the legal advice given.

16. INDEPENDENT FINANCIAL ADVISER'S OPINION IN RESPECT OF THE SHAREHOLDERS' MANDATE

In accordance with the requirements of Chapter 9 of the Listing Manual, Provenance Capital Pte. Ltd. has been appointed as the Independent Financial Adviser to the Independent Directors to render an opinion as to whether the guidelines and review procedures for determining the transaction prices and terms of the Interested Person Transactions set out in Section 15 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 the minority Shareholders. A copy of the letter from the Independent Financial Adviser is set out in Appendix A of this Circular and Shareholders are advised to read the Independent Financial Adviser's letter carefully.

Taking into consideration the factors set out in paragraph 7.2 of the letter from the Independent Financial Adviser, Provenance Capital Pte. Ltd. is of the opinion that the guidelines and review procedures for determining transaction prices and terms of the Interested Person Transactions set out in Section 15 above are sufficient, if adhered to, 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 the minority Shareholders.

17. STATEMENT FROM THE AUDIT COMMITTEE

The Audit Committee has reviewed *inter alia* the terms of the Acquisition and the rationale for the Acquisition and the methods and procedures for determining transaction prices of Interested Person Transactions set out in Section 15 above, and is of the opinion that:

(i) the financial terms of the Acquisition are on normal commercial terms and are not prejudicial to the interests of the Company and the minority Shareholders; and

(ii) the guidelines and review procedures for determining transaction prices and terms of the Interested Person Transactions set out in Section 15 above are sufficient, if adhered to, 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 the minority Shareholders.

The Audit Committee has not taken a different view from the Independent Financial Adviser's opinion as set out in Sections 10 and 16 above.

18. INDEPENDENT DIRECTORS' RECOMMENDATION

The Acquisition

The Board (excluding Sun Bowen and Bao Hongwei) having considered the terms of the Agreement as set out in Section 2 of this Circular, the rationale of the Acquisition as set out in Section 7 of this Circular and the recommendations given by Provenance Capital Pte. Ltd. in the Independent Financial Adviser's letter, is of the view that the Acquisition is in the best interests of the Company and recommends that Independent Shareholders vote in favour of the resolutions in relation to the Acquisition (set out in the Notice of EGM set out on page 50 of this Circular) to be proposed at the EGM to be held on 22 September 2008.

The Proposed Shareholders' Mandate

The Board (excluding Sun Bowen and Bao Hongwei) refers the Independent Shareholders to the reasons set out in Section 14 in relation to Resolution 2. Having considered all relevant factors and the rationale for the Shareholders' Mandate and the recommendations given by Provenance Capital Pte. Ltd. in the Independent Financial Adviser's letter, the Board (excluding Sun Bowen and Bao Hongwei) is of the opinion that the Shareholders' Mandate is in the interests of the Group and will not be prejudicial to the interests of the Company's minority shareholders and accordingly recommend that Independent Shareholders vote in favour of Resolution 2.

In giving the above recommendation, the Board (excluding Sun Bowen and Bao Hongwei) has not taken into consideration the specific objectives, financial situation or unique needs and constraints of each Independent Shareholder. **The Board (excluding Sun Bowen and Bao Hongwei) recommends 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.**

Each of Sun Bowen and Bao Hongwei has abstained from making the aforesaid recommendations.

19. VALIDITY PERIOD OF SHAREHOLDERS' MANDATE

If the approval of the Shareholders is obtained at the EGM, the Shareholders' Mandate will take effect from the passing of Resolution 2 at the EGM and shall (unless the same is revoked or varied by the Company in general meeting) continue in force until the next AGM. Approval from the Shareholders will be sought at the next AGM and at each subsequent AGM, subject to satisfactory review by the Audit Committee of its continued application to transactions with Interested Persons.

In the event that it is determined by the Audit Committee that the review procedures set out in Section 15 above have become inappropriate, a fresh mandate from the Shareholders shall be sought.

20. ABSTENTIONS

Sun Bowen and Bao Hongwei will abstain from making recommendations and voting on Resolutions 1 and 2. They have also undertaken to ensure that their associates will abstain from voting on Resolutions 1 and 2.

21. DIRECTORS AND VENDOR'S RESPONSIBILITY STATEMENT

The Directors collectively and individually accept responsibility for this Circular and confirm, after having made all reasonable enquiries, that to the best of their knowledge and belief, the facts stated and opinions expressed in this Circular are fair and accurate in all material respects as at the Latest Practicable Date and that there are no material facts the omission of which would make any statement in this Circular misleading in any material respect.

Where any information has been extracted from published or otherwise publicly available sources (including, without limitation, information relating to Hebei Yinguang), the sole responsibility of the Directors has been to ensure through reasonable enquiries that such information is accurately and correctly extracted from such sources or, as the case may be, accurately reflected or reproduced in this Circular.

The Vendor accepts full responsibility for the accuracy of the information given in this Circular in respect of Hebei Yinguang and confirms, after making all reasonable enquiries that to the best of its knowledge and belief, the facts stated and opinions expressed in this Circular in respect of Hebei Yinguang are accurate and fair in all material respects as at the date hereof, and that there are no material facts the omission of which would make this Circular misleading.

22. THE EGM

The EGM, notice of which is set out on page 60 of this Circular, will be held on 22 September 2008 at 9.00 a.m. at 39 Fishery Port Road, Jurong, Singapore 619745 for the purpose of considering and, if thought fit, passing with or without any modifications, the resolutions as set out in the Notice of EGM.

23. ACTION TO BE TAKEN BY SHAREHOLDERS

23.1 **Appointment of Proxies.** If a Shareholder is unable to attend the EGM and wishes to appoint a proxy to attend and vote on his behalf, he should complete, sign and return the attached 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 36 Carpenter Street Singapore 059915 not later than on 20 September 2008 at 9.00 a.m. 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 so wishes.

23.2 **When Depositor regarded as Shareholder.** As stipulated under Section 130D of the Companies Act, a Depositor shall not be regarded as a Shareholder entitled to attend the AGM and to speak and vote thereat unless he is shown to have Shares entered against his name in the Depository Register at 48 hours before the EGM.

24. CONSENTS

Provenance Capital Pte. Ltd. has given and has not withdrawn its written consent to the issue of this Circular with the inclusion in this Circular of and all references to its name and the letter from the Independent Financial Adviser in respect of the Acquisition and the Shareholders' Mandate in the form and context in which it appears in this Circular. Provenance Capital Pte. Ltd. was not involved in the structuring or negotiation of the Acquisition.

Censere Singapore Pte Ltd has given and has not withdrawn its written consent to the issue of this Circular with the inclusion in this Circular of and all references to its name and the Valuation Report Summary in the form and context in which it appears in this Circular.

25. 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 the financial year ended 31 March 2008;

(c) the Agreement;

(d) the Valuation Report; and

(e) the letter from the Independent Financial Adviser.

Yours faithfully

For and on behalf of the Board
Fabchem China Limited

Dr Lim Seck Yeow
Non-Executive Chairman

LETTER FROM INDEPENDENT FINANCIAL ADVISER IN RESPECT OF THE ACQUISITION AND THE SHAREHOLDERS' MANDATE

PROVENANCE CAPITAL PTE. LTD.
(Company Registration No: 200309056E)
(Incorporated in Singapore)

138 Cecil Street #09-01 Cecil Court
Singapore 069538

29 August 2008

To: The Directors of Fabchem China Limited
(being independent of the Acquisition and the Mandated Transactions)

Dr Lim Seck Yeow
Mr Peter Neville Hogan
Mr Alan Grace
Mr Ong Tai Tiong Desmond
Mr Lim Hui Min John
Mr Wong Joo Wan

Dear Sirs,

(A) THE PROPOSED ACQUISITION OF THE ENTIRE EQUITY INTEREST IN HEBEI YINGUANG CHEMICAL CO., LTD BY A WHOLLY-OWNED SUBSIDIARY OF FABCHEM CHINA LIMITED AS AN INTERESTED PERSON TRANSACTION; AND

(B) THE PROPOSED SHAREHOLDERS' 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.

1. INTRODUCTION

1.1 The Acquisition

On 19 December 2007, the Directors of Fabchem China Limited (the "**Company**") announced that the Company's wholly-owned subsidiary, Shandong Yinguang Technology Co., Ltd. (the "**Purchaser**"), had on the same day, entered into an equity purchase agreement (the "**EPA**") with Shandong Yinguang Chemical Group Co. Ltd (the "**Vendor**"), to acquire the entire equity interest of Hebei Yinguang Chemical Co., Ltd (the "**Target Company**") (the "**Acquisition**") for a cash consideration of RMB 24,126,316.74.

The cash consideration was based on the aggregate amount of the equity interest of the Target Company representing one hundred percent (100%) of the Target Company's registered capital (the "**Equity Interest**") of RMB 9.0 million and an existing shareholder's loan of RMB 15,126,316.74 owed by the Target Company to the Vendor. As at the latest practicable date on 25 August 2008 (the "**Latest Practicable Date**"), the shareholder's loan had increased by approximately RMB 6.1 million to approximately RMB 21.23 million (the "**Shareholder's Loan**") due mainly to the payment of operating expenses, funding of the increase in the production capacity of ammonium nitrate of the Target Company and repayment of debts owing by the Target Company to Linxi County Nitrogenous Fertilizer Co., Ltd. (the "**Fertilizer Company**"). As such, the Puchaser and the Vendor had agreed that the cash consideration for the Acquisition would be adjusted to approximately RMB 30.23 million (the "**Consideration**").

As at the Latest Practicable Date, Mr Sun Bowen is a controlling shareholder and Managing Director of the Company and has an aggregate direct and indirect interest of 62.4% of the registered share capital of the Vendor and Mr Bao Hongwei is a shareholder and Director of the Company and has an aggregate direct and indirect interest of 6.0% of the registered share capital of the Vendor. By virtue of being a Director of the Company as well as his shareholding interests in the Vendor, Mr Sun Bowen is deemed interested in the Acquisition and accordingly, the Acquisition would constitute as an interested person transaction for the purposes of Chapter 9 of the SGX-ST Listing Manual ("**Listing Manual**").

Pursuant to Rule 906 of the Listing Manual, the Company is required to obtain Shareholders' approval for any interested person transaction (or series of interested person transactions with the same interested person during the same financial year) of a value equal to or more than 5% of the group's latest audited net tangible asset ("**NTA**"). Based on the latest audited NTA of the Company and its subsidiaries (the "**Group**") of approximately RMB 274.5 million as at 31 March 2008, the relevant 5% threshold would be approximately RMB 13.7 million. Accordingly, as the Consideration of approximately RMB 30.23 million (which amounts to approximately 11.0% of the NTA of the Group as at 31 March 2008), is more than the relevant threshold of approximately RMB 13.7 million, the Acquisition is subject to the approval of Shareholders at an EGM and the opinion of an independent financial adviser.

1.2 The Proposed Shareholders' Mandate

The Company is also proposing to adopt a Shareholders' approval for a general mandate for any member of the Group, which are considered to be "entities at risk" within the meaning of Chapter 9 of the Listing Manual, (the "**Shareholders' Mandate**"), to enter into certain categories of transactions (the "**Mandated Transactions**") with specified classes of interested persons (the "**Interested Persons**").

Upon the completion of the Acquisition, it is anticipated that the Group would, in the ordinary course of its business, enter into recurring transactions with the Interested Persons with some degree of frequency and could arise at any time and from time to time.

Pursuant to Rule 906 of the Listing Manual, the Company is required to obtain Shareholders' approval for any interested person transaction (or series of interested person transactions with the same interested person during the same financial year) of a value equal to or more than 5% of the Group's latest audited NTA. Based on the Group's latest audited NTA of approximately RMB 274.5 million as at 31 March 2008, the relevant 5% threshold would be approximately RMB 13.7 million. It is envisaged that the aggregate value of the Mandated Transactions in each following financial year will exceed 5% of the Group's NTA. As an illustration, the value of the Mandated Transactions between the Target Company (which commenced operations in April 2007) and the Interested Persons for the period from 1 April 2007 to 31 March 2008, being the latest management accounts of the Target Company, was approximately RMB 27.0 million (which amounted to approximately 9.8% of the NTA of the Group as at 31 March 2008). Therefore, the Mandated Transactions is subject to the approval of Shareholders at an EGM and the opinion of an independent financial adviser.

1.3 Appointment of an Independent Financial Adviser

Provenance Capital Pte. Ltd. ("**Provenance Capital**") has been appointed as the independent financial adviser to advise and render an opinion to the directors of the Company who are considered independent of the Acquisition and the Mandated Transactions (the "**Independent Directors**"), on:

(a) whether the financial terms of the Acquisition are on normal commercial terms and are not prejudicial to the interests of the Company and the minority shareholders of the Company; and

(b) whether the review procedures set out in the Shareholders' Mandate for determining the transaction prices and terms of the Mandated Transactions 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 the minority Shareholders.

This letter ("**Letter**") has been prepared for the use of the Independent Directors and is to be incorporated into the circular to shareholders of the Company (the "**Shareholders**") dated 29 August 2008 (the "**Circular**") which provides, *inter alia*, the details of the Acquisition and the Shareholders' Mandate and the recommendations of the Independent Directors thereon.

2. TERMS OF REFERENCE

The objective of this Letter is to provide an independent opinion, for the purposes of Chapter 9 of the Listing Manual, on whether the financial terms of the Acquisition are on normal commercial terms and are not prejudicial to the interests of the Company and the minority Shareholders and whether the review procedures set out in the Shareholders' Mandate for determining the terms of the Mandated Transactions will be carried out on normal commercial terms and will not be prejudicial to the interests of the Company and the minority Shareholders.

The scope of our appointment does not require us to express, and we do not express, any view on the future growth prospects, financial position and earnings potential of the Company. Such evaluation or comments remain the responsibility of the Directors although we may draw upon their views or make such comments in respect thereof (to the extent deemed necessary or appropriate by us) in arriving at our opinion. The opinion set forth herein is based solely on publicly available information as well as information provided by the Directors, and is predicated upon the economic and market conditions prevailing as at the date of this Letter. This Letter therefore does not reflect any projections on the future financial performance of the Company in the event that the Acquisition is completed.

Provenance Capital's views as set forth in this Letter are based on the prevailing market and economic conditions, and our analysis of the information provided in the Circular as well as information provided to us by the Company, as of the Latest Practicable Date. Accordingly, this opinion shall not take into account any event or condition which occur after the Latest Practicable Date. Provenance Capital is not and was not involved in any aspect of the negotiations on the terms of the Acquisition and on the scope of the Shareholders' Mandate, nor were we involved in the deliberations leading up to the decision by the Directors to proceed with the Acquisition and to obtain the Shareholders' Mandate.

We have not made an independent evaluation of the Target Company. We have, however, been furnished with the valuation report for the Target Company. With respect to such a valuation report, we are not experts and do not hold ourselves to be experts in the evaluation of the Target Company and have relied upon the valuation report of the Target Company prepared by Censere Singapore Pte Ltd ("**Censere**"), an independent specialist valuation firm appointed by the Company (the "**Independent Valuer**"). The valuation report for the Target Company as at 29 February 2008 and dated 1 May 2008 (the "**Valuation Report**") is made available for inspection at the Company's registered address office as set out in Section 25 of the Circular and the corresponding valuation report summary is set out in Appendix B of the Circular.

In formulating our opinion and recommendation, we have relied to a considerable extent on the information set out in the Circular, other public information collated by us and the information, representations, opinions, facts and statements provided to us, whether written or verbal, by the Company and its professional advisers. We have also relied upon the responsibility statement of the Directors (including those who may have delegated detailed supervision of the Circular) as set out in Section 21 of the Circular that they collectively and individually accept full responsibility for the accuracy of the information given in the Circular and that having made all reasonable enquiries and to the best of their knowledge and belief, to ensure that the facts stated and opinions expressed in the Circular are accurate in all material respects and that no material facts have been omitted which would make any statement in the Circular misleading.

Nothing has come to our attention and we have found no reason to doubt the accuracy and reliability of the information provided to us. Whilst we have made reasonable enquiries and exercised our judgement on the reasonable use of such information to the best of our knowledge and belief, we do not accept any responsibility for the accuracy, completeness or adequacy of such information which remains the responsibility of the Directors.

Whilst a copy of this Letter may be reproduced in the Circular, neither the Company nor the Directors may reproduce, disseminate or quote this Letter (or any part thereof) for any purposes other than for the purposes of the Shareholders' resolutions in relation to the Acquisition and the Shareholders' Mandate at any time and in any manner without the prior written consent of Provenance Capital in each specific case.

Our opinion is addressed to the Independent Directors for their benefit and deliberation on the Acquisition and the Shareholders' Mandate. The recommendations made to the Shareholders in relation to the Acquisition and the Shareholders' Mandate shall remain the responsibility of the Independent Directors. In preparing this Letter, we have not had regard to the specific investment objectives, financial situation, tax position or unique needs and constraints of any Shareholder. As different Shareholders would have different investment objectives, we would advise the Independent Directors to recommend that any individual Shareholder who may require specific advice in relation to his Shares consult his stockbroker, bank manager, solicitor, accountant or other professional advisers. **Our opinion in relation to the Acquisition and the Shareholders' Mandate should be considered in the context of the entirety of this Letter and the Circular.**

3. THE ACQUISITION

3.1 Background

Pursuant to the terms of the EPA, the Purchaser will acquire from the Vendor the Equity Interest. Upon completion, the Target Company will become a wholly-owned subsidiary of the Company.

The details of the Acquisition are set out in Sections 2, 6 and 7 of the Circular, and we recommend that the Directors advise Shareholders to read the details of the Acquisition contained in the Circular carefully.

3.2 Consideration

Pursuant to the terms of the EPA and the subsequent agreement between the Purchaser and the Vendor, the Purchaser shall pay to the Vendor a cash consideration of approximately RMB 30.23 million. The Consideration was arrived at on a willing buyer-willing seller basis and determined based on the aggregate amount of the Equity Interest of RMB 9.0 million injected into the Target Company by the Vendor as working capital and the Shareholder's Loan of approximately RMB 21.23 million as at the Latest Practicable Date.

The Consideration will be satisfied by means of cash payment in three (3) tranches as follows:

(a) RMB 9.0 million (being the amount of the Equity Interest) within one (1) week from the Completion Date; and

(b) approximately RMB 15.13 million representing part of the Shareholder's Loan outstanding as at the date of the EPA on the date which is three (3) months after the Completion Date; and

(c) approximately RMB 6.1 million representing the remaining Shareholder's Loan outstanding as at the Latest Practicable Date and at such time when the Target Company is able to procure local bank borrowings for purposes of the expansion of the production of ammonium nitrate.

The first and second tranches of the Consideration under sub-paragraphs (a) and (b) above will be satisfied using the Group's internally generated funds. The third tranche under sub-paragraph (c) above will be satisfied using local bank borrowings procured by the Target Company as mentioned in the said sub-paragraph (c).

Pursuant to the terms of the EPA, the Shareholder's Loan will be assigned to the Purchaser on the Completion Date. As such, the Shareholder's Loan would be assumed by the Purchaser and result in approximately RMB 21.23 million being owed by the Target Company to the Purchaser. This means that the Vendor would be repaid its Shareholder's Loan.

3.3 Other Existing Loan

As at the date of the EPA, there was an existing loan of RMB 34,129,014.56 (the "**Existing Loan**") due from and owing by the Target Company to the Fertilizer Company, being the outstanding purchase price for the purchase by the Target Company of its current business and assets from the Fertilizer Company pursuant to and in accordance with an asset purchase contract dated 3 January 2007 (as supplemented by a supplement agreement dated 14 July 2007). As at the Latest Practicable Date, the Existing Loan decreased by approximately RMB 6.96 million to approximately RMB 27.17 million due mainly to the repayment of debts to the Fertilizer Company between the date of the EPA to the Latest Practicable Date. As at the Latest Practicable Date, the repayment schedule of the Existing Loan will be approximately as follows:

Within three (3) months from the Completion Date	:	RMB 1.9 million
Within six (6) months from the Completion Date	:	RMB 15.3 million
Within twelve (12) months from the Completion Date	:	RMB 10.0 million
Total	:	RMB 27.2 million

The details of the Fertilizer Company are set out in Section 6 of the Circular under the sub-Section 6.1.

The Existing Loan is not part of the Consideration. The repayment of the Existing Loan owed by the Target Company to the Fertilizer Company will be satisfied using the Group's internally generated funds.

The repayment of the Shareholder's Loan and the repayment schedule of the Existing Loan give certainty to the eventual repayment of these outstanding loans owed by the Target Company.

3.4 Conditions Precedent

Details of the conditions precedent for the Acquisition can be found in Section 2.2 of the Circular, an extract of which is set out in italics below. All terms and expressions used in the extract below shall have the same meaning as those defined in the Circular, unless otherwise stated.

"The completion of the Acquisition is conditional upon, inter alia, the fulfilment or waiver of the following conditions (each a "Condition" and collectively, the "Conditions") on or before Completion including, amongst others, the following:-

(i) the results of such legal and financial due diligence investigations on Hebei Yinguang conducted by the Purchaser and its advisers or representatives, being satisfactory to the Purchaser in its sole and absolute discretion;

(ii) the approval of each of the Purchaser's shareholders at a general meeting and approval of the board of directors of the Purchaser in respect of the transactions contemplated hereunder shall have been first obtained;

(iii) all other necessary consents and approvals, if any, being granted and not withdrawn or revoked by third parties (including without limitation, government bodies, stock exchange and other relevant authorities having jurisdiction over the transactions contemplated under the Agreement) and if such consents are obtained subject to any condition(s) and where such condition(s) affect any of the Parties, such condition(s) being acceptable to the Party concerned and, if such condition(s) are required to be fulfilled before Completion, such condition(s) being fulfilled before Completion;

(iv) the execution of a loan repayment agreement between the Fertilizer Company and the Purchaser relating to the repayment of the Existing Loan to the Fertilizer Company by Hebei Yinguang after Completion on such terms and conditions as shall be acceptable to the Purchaser (refer to Section 2.5 of the Circular for details of the loan repayment schedule);

(v) *the execution and delivery by the Vendor of a deed of assignment, the terms of which shall be acceptable to the Purchaser, in respect of the assignment of the Shareholder's Loan to the Purchaser."*

4. INFORMATION ON THE TARGET COMPANY

Details of the information on the Target Company is set out in Section 6 of the Circular. In particular, the audited financial performance for the period from 1 April 2007 to 31 December 2007 and for the period from 1 January 2008 to 31 March 2008, and the audited financial positions of the Target Company as at 31 December 2007 and 31 March 2008 are set out under the sub-Section 6.8 of the Circular.

5. EVALUATION OF THE ACQUISITION

In evaluating the Acquisition, we have taken into account the pertinent factors set out below which we consider will have a significant bearing on our assessment:

(a) The Valuation Report of the Target Company carried out by Censere as the Independent Valuer;

(b) Financial effects of the Acquisition; and

(c) Other considerations.

5.1 The Valuation Report of the Target Company carried out by Censere as the Independent Valuer

Censere, the Independent Valuer, had been engaged by the Company to undertake an independent valuation of a 100% equity interest and the fixed assets of the Target Company. For more details of the independent valuation conducted by Censere, please refer to the Valuation Report which is made available for inspection at the Company's registered office as set out in Section 25 of the Circular and the corresponding valuation report summary as set out in of Appendix B of the Circular.

The valuations of a 100% equity interest and the fixed assets as determined by Censere had been undertaken on a market value basis as at 29 February 2008 (the "**Market Value**"). Market Value is defined as the estimated amount for which an asset should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

5.1.1 Independent valuation of a 100% equity interest of the Target Company

Valuation Methodology

In arriving at the Market Value of a 100% equity interest in the Target Company, Censere considered three generally accepted approaches, namely, cost approach, market approach and income approach. In Censere's opinion, (i) cost approach was not appropriate as it does not directly incorporate information about the economic benefits contributed by the business of the Target Company; and (ii) market approach using several market multiple methods such as "Enterprise Value / Earnings before Interest", "Tax Depreciation and Amortization", "Price to Earnings multiple" and "Price to Book multiple", was not appropriate given the Target Company's very short operating history with high growth potential and negative earnings prior to February 2008. In addition, the business of the Target Company is in a highly regulated industry in the PRC. Accordingly, Censere relied solely on the income approach in assessing the Market Value of the 100% equity interest in the Target Company, applying the discounted cash flow method ("**DCF Method**").

Key Assumptions

The key assumptions used by Censere in applying the DCF Method are as follows:

- Financial information provided by the management of the Target Company accurately reflects the Target Company's financial and operating position;

- The Target Company has provided Censere the financial forecast from March 2008 to FY 2018 (12-month period ending 31 March 2018). The Target Company is solely responsible for the contents and estimation, and they are also responsible for the assumptions in the forecast. Censere has not performed any work in the nature of an audit of the information provided to them and accordingly have not expressed any audit opinion in this report;

- The Target Company shall continue to operate as a going concern and it has sufficient liquidity to achieve the financial forecast and projections;

- There will not be any material changes in political and/or economic conditions under which the Target Company operates that may adversely affect the valuation of the Target Company;

- There are no other liabilities including any contingent liabilities or unusual contractual obligations or substantial commitments which would have a material effect on the value of the Target Company;

- The current owner of the Target Company has clear and unencumbered title of ownership over all assets included in this assessment;

- Other assumptions specific to a particular valuation approach or certain observations and conclusions are outlined in the ensuing sections of the report;

- The Target Company continues to operate as a going concern. Its sales, costs, and net profit continue to grow according to the forecast. Its capital expenditure and working capital requirements are estimated accurately as provided for in the projections;

- The Target Company has sufficient operational resources to support the projected turnover and profitability;

- The Target Company is dependent on the successful assembly of the production line for 40,000 tons ammonium nitrate to raise production capacity from 30,000 to 70,000 tons per year. The management of the Target Company expects the production line for 40,000 tons ammonium nitrate to start operation in FY 2009 (12-month period ending 31 March 2009) and installation process has commenced; and

- The management of the Target Company has forecast a 15% increase in average selling price of ammonium nitrate in FY 2009 (12-month period ending 31 March 2009) and 5% annual increase from FY 2010 (12-month period ending 31 March 2010) and onwards.

Discount Rate

Censere, in determining the weighted average cost of capital ("**WACC**") for the Target Company, has taken into account a number of factors including the current market condition and the underlying risks inherent in the business, such as uncertainty risk, liquidity risk, marketability risk, etc. These risk factors have been considered in determining the appropriate discount rate for the valuation.

Censere has used the expected return on equity capital, calculated through the application of the Capital Asset Pricing Model (the "**CAPM**"), and the expected cost of debt when evaluating the appropriate WACC for the operation of the Target Company. Under CAPM, the appropriate expected rate of return is the sum of the risk-free return and the equity risk premium required by investors to compensate for the market risk assumed. In addition, the expected rate of return of the

Target Company is expected to be affected by factors that are independent of the general market such as country risk, lack of liquidity, lack of marketability, lack of historical trends for the Target Company and the risk premium for new startups. This variability of the expected rate of return is referred to as the specific risk.

5.1.2 Independent valuation of the fixed assets of the Target Company

Valuation Methodology

Land and Buildings

In arriving at the Market Value of the land and buildings of the Target Company, Censere has valued the property interest on the basis that the properties are to be used as in the existing state. The property interests have been valued on the basis of depreciated replacement cost. The depreciated replacement cost approach generally furnishes the most reliable indication of value for property in the absence of a known market based on comparable sales.

Machinery and Equipment

In arriving at the Market Value of the machinery and equipment of the Target Company, Censere has used both the cost approach and the market approach, however, due to the fact that there is only limited second-hand market information available, Censere has placed emphasis on the cost approach. In arriving at its valuation, Censere has given consideration to the replacement cost of the new assets, accrued depreciation, continuation of current use in their present location, current prices for similar used equipment in the second-hand market and the extent, character and utility of the assets as an integrated whole.

Off-Balance Sheet Fixed Assets

A desktop valuation was conducted of 383 items of machinery and equipment which were not in the fixed asset register and were not included in the balance sheet as at 29 February 2008 comprising pipelines, fitting/accessories, power cables and components of the production lines, such as tanks and boilers. The indicative market value of these off-balance sheet fixed assets was conducted on a desktop basis and based solely on the information provided.

Key Assumptions

The key assumptions used by Censere in its valuation methodology are as follows:

Land, Buildings and Structures

- The Target Company is in possession of proper legal title to the property and is entitled to transfer the property with the residual term of its land use right at no extra land premium or other onerous payment payable to the Government;
- The Target Company has the right to lease, mortgage and transfer the interest of the property; and
- The Target Company has obtained the relevant approval for the operation of the business.

Machinery and Equipment

- No deduction has been made in respect of any grant either available or received, neither has any adjustment been made for any outstanding amounts owed under financing agreements;
- Unless otherwise advised, Censere has assumed that the assets will continue in their present existing use in the business of the Target Company;
- Censere's assessment has been prepared on the assumption that the assets therein are, or are capable of, being utilized as the assets of a profitable undertaking with the benefit of continuity of tenure of land and buildings during the foreseeable future;

- Censere's report is based on brief visual inspection. Censere has not carried out a full mechanical survey, nor have they inspected other items of plant which are covered, unexposed or inaccessible. Censere's assessment is based on the premise that the items are in a condition commensurate with age and usage;

- Censere did not investigate any financial data pertaining to the present or prospective earning capacity of the operation in which the assets are used. It is assumed that prospective earnings would provide a reasonable return on the appraised value of the assets, plus the value of any assets not included in the valuation, and adequate net working capital; and

- Censere has assumed that the Target Company has clear title of ownership over all assets included in this assessment.

5.1.3 Analysis of Censere's Independent valuation of a 100% equity interest and the fixed assets of the Target Company

Based on Censere's Valuation Report, the Market Values of a 100% equity interest and the fixed assets of the Target Company are as follows:

Description	**Market Values (RMB '000)**
Equity Interest	
100% equity stake of the Target Company	11,000
Fixed Assets	
Land and Buildings	33,500
Machinery and Equipment	10,500
Total	44,000

	Indicative Market Value (RMB '000)
Off-Balance Sheet Fixed Assets	
Machinery and Equipment	13,700

We note, *inter alia*, the following:

(a) The Market Value of a 100% equity interest in the Target Company of approximately RMB 11.0 million is arrived at based on the DCF Method.

Censere deemed the DCF Method to be the most appropriate method of valuation as it eliminates the discrepancy in time value of money by using a discount rate to reflect all business risks including intrinsic and extrinsic uncertainties in relation to the Target Company.

Under the DCF Method in valuing the Target Company, Censere had based its assessment of the Market Value on various assumptions including the financial forecast from March 2008 to FY2018 provided by the Target Company. Censere is of the opinion that the financial forecast is in line with its accompanying assumptions.

The discounted cashflow method is a widely accepted method of valuing an investment with a defined stream of expected future cashflow. In addition, given the very short operating history of the Target Company, the high growth potential of the Target Company in connection with the valuation of the Target Company, we are of the view that the discounted cashflow method would be an appropriate method of valuation, subject to the reasonableness of the forecasted cashflows and the discount rate applied.

We have made enquiries and have exercised our professional judgement in reviewing the information contained in the valuation report. We have, to date, found no reason to doubt that the information contained therein has been prepared after due and careful enquiry by the Company and Censere;

(b) The Market Value of the fixed assets of the Target Company of approximately RMB 44.0 million is based on, *inter alia*, the replacement cost of new assets, accrued depreciation and comparable transactions;

(c) The off-balance sheet fixed assets consist of machinery and equipment which were not recorded in the Target Company's books. These assets, which form an integral part of its machinery and equipment for its manufacturing activities, were transferred to the Target Company pursuant to the asset purchase contract dated 3 January 2007 from the Fertilizer Company;

(d) Pursuant to the terms of the EPA, the Shareholder's Loan will be assigned to the Purchaser on the Completion Date. As such, the Shareholders' Loan would be assumed by the Purchaser and result in the approximately RMB 21.23 being owed by the Target Company to the Purchaser. This means that the Vendor would be assured of being repaid its Shareholder's Loan;

(e) Based on the Target Company's audited financial position as at 31 March 2008, its NTA was approximately RMB 9.1 million. As such, the amount of the Equity Interest payable by the Purchaser is at a 0.6% discount to the NTA.

The Market Value of a 100% equity interest in the Target Company is approximately RMB 11.0 million. The amount of the Equity Interest payable by the Purchaser is at a 18.2% discount to the Market Value. As such, the Consideration of the Acquisition is supported by the Market Value as determined by Censere; and

(f) Based on the Target Company's audited financial positions as at 31 December 2007 and 31 March 2008, the valuation surplus above the net book values of its fixed assets, comprising land and buildings and machinery and equipment at the respective dates, were approximately RMB 49.3 million and RMB 49.8 million respectively. The details are set out below:

(RMB '000)	**Market Value** (A)	**Net Book Value as at 31 December 2007** (B)	**Valuation Surplus** (A)-(B)	**Net Book Value as at 31 March 2008** (C)	**Valuation Surplus** (A)-(C)
Fixed Assets	57,700	49,272	8,428	49,786	7,914

Based on the above, the aggregate Market Value of the fixed assets of the Target Company as determined by Censere (based on, inter alia, the replacement cost of new assets, accrued depreciation and comparable transactions) resulted in a valuation surplus of approximately RMB 8.4 million over the aggregate net book value of the fixed assets as at 31 December 2007.

It is noted that for the audited 3-month financial period from 1 January 2008 to 31 March 2008, the Target Company recorded a net profit of approximately RMB 1.2 million as compared to loss of approximately RMB 1.16 million incurred in the 9-month financial period from 1 April 2007 to 31 December 2007.

Based on the above, the aggregate Market Value of the fixed assets of the Target Company as determined by Censere (based on, inter alia, the replacement cost of new assets, accrued depreciation and comparable transactions) resulted in a valuation surplus of approximately RMB 7.9 million over the aggregate net book value of the fixed assets as at 31 March 2008.

5.2 Financial Effects of the Acquisition

For illustrative purposes only and based on the latest consolidated financial statements of the Company for the year ended 31 March 2008, the financial effects of the Acquisition on the Company on the share capital, earnings per share, NTA and gearing of the Company are set out in Section 8 of the Circular.

We note that the Acquisition has no impact on the issued share capital of the Company as the Consideration shall be payable in cash. The Acquisition has no material effect on the NTA of the Company. In addition, the Acquisition has no material impact on the earnings of the Company.

It is also to be noted that the Existing Loan is not part of the Consideration. The repayment of the Existing Loan owed by the Target Company to the Fertilizer Company will be satisfied using the Group's internally generated funds. The repayment of the Shareholder's Loan and the repayment schedule of the Existing Loan give certainty to the eventual repayment of these outstanding loans owed by the Target Company.

We note that for the audited 9-month financial period from 1 April 2007 to 31 December 2007, the net loss of the Target Company was approximately RMB 1.16 million. The Target Company was incorporated in February 2007 and commenced operations in April 2007. The loss was due mainly to one-off incorporation and other non-recurring expenses of approximately RMB 1.33 million and approximately RMB 0.41 million respectively. Had the aggregate amount of the incorporation and other non-recurring expenses been excluded from the 9-month financial performance, the Target Company would have recorded a profit of approximately RMB 0.58 million. We also note that for the audited 3-month financial period from 1 January 2008 to 31 March 2008, the Target Company recorded a net profit of approximately RMB 1.2 million and a higher gross profit margin as compared to the 9-month financial period from 1 April 2007 to 31 December 2007 due mainly to the better efficiencies obtained from the production of ammonium nitrate.

5.3 Other considerations

In determining whether the financial terms of the Acquisition are on normal commerical terms and are not prejudicial to the interests of the Company and its minority Shareholders, we have also considered the following:

(a) Rationale of the Acquisition

The full text of the Directors' rationale for the Acquisition has been extracted from Section 7 of the Circular as set out in italics below. All terms and expressions used in the extract below shall have the same meaning as those defined in the Circular, unless otherwise stated.

"The Company is of the view that the Acquisition will be beneficial to the Group for the following reasons:

Enhanced product range

Currently the main revenue of our Group is derived solely from initiation systems, i.e. boosters, seismic charges, detonating cords, detonators, etc. As one of our Group's long term business development strategies, we intend to expand into the production and supply of ammonium nitrate (being the raw material for the manufacture of explosives). This additional capability and product would differentiate our Group from other commercial explosives manufacturers in the PRC with a similar business as ours, most of whom do not engage in production of such raw material. The Company believes that such expansion of product range will also serve to secure the Group's position in further developing its commercial explosives business and facilitate any possible future integration within the explosives industry.

<u>Competitive advantage – Barrier to entry</u>

As stated above, according to the latest PRC rules and regulations, the PRC government will no longer issue new licences and permits for the establishment of production facilities for ammonium nitrate. As such, competition within this industry will only be limited to the existing players and our management believes that Hebei Yinguang will stand to benefit from this in the long term.

<u>Expansion of our Group's existing business and the ammonium nitrate business</u>

By supplying ammonium nitrate to the explosives manufacturers in Hebei's neighbouring provinces and leveraging upon Hebei Yinguang's existing clientele and network, the Group is also able to establish in-roads into and explore new territories and markets where we currently do not have a presence in for our initiation system business. This is in line with the Group's market expansion strategy."

(b) Risk Factors

The full text of the risk factors of the Acquisition can be found in sub-Section 6.6 of the Circular. Our terms of reference are limited to our evaluation of the financial terms of the Acquisition and we have not taken into account the commerical risks or commerical merits of the Acquisition. Our terms of reference do not require us to evaluate or comment on the stategic or long-term commerical merits of the Acquisition or on the prospects of either the Company, the Target Company or the consolidated group.

In this respect, we advise you to draw to the attention of the Independent Shareholders sub-Section 6.6 of the Circular which details the risk factors in relation to the Acquisition.

In particular, we advise the particular attention to be paid to the following specific risks associated with the Acquisition:

(i) The Target Company has a limited operating track record

The Target Company has a limited operating history upon which it may be evaluated. The Target Company was only incorporated in February 2007 and commenced its manufacturing activities in April 2007. As a result, the evaluation of the Target Company and its prospects will be based on a limited operating history. It also has limited historical financial data from which to predict its future revenue and expenses. The relatively limited operating history and financial track record of the Target Company may not be an appropriate basis to evaluate its future prospects and performance. There is no assurance that the Target Company can sustain profitability or avoid losses in the future and its past operating results may not be indicative of its future financial performance.

(ii) The Target Company may have significant future capital needs which will require additional financing

The Target Company may need to raise significant additional funds in the future, through public or private financing, to support its growth, undertake acquisitions, develop new or enhanced products, respond to competitive pressures and/or acquire complementary businesses or technologies. There is no assurance that such additional funding, if needed, will be available on acceptable terms.

Furthermore, any debt financing, if available, may involve restrictive covenants, which may limit its operating flexibility. If additional funds are raised through the issuance of equity or equity-linked instruments, the Company may experience a reduction in its effective percentage shareholdings in the Target Company. In addition, such equity or equity-linked instruments may have rights, preferences or privileges senior to those of the Target Company's existing shares. Failure to secure adequate funds on acceptable terms will have an adverse impact on its business, its competitiveness and its financial results.

(iii) The Target Company may face uncertainties associated with the expansion of its business

The Target Company may explore strategic alliances, acquisitions or investment opportunities in business that are complementary to its business. Expansion involves numerous risks, including but not limited to the financial costs of setting up new operations, investment in machinery and equipment and working capital requirements. There can be no assurance that the expanded operations will achieve a sufficient level of revenue which will cover its operational costs and if the Target Company fails to manage such costs, its profitability and financial position may be adversely affected.

Participation in strategic alliances, acquisitions, or investments similarly involves numerous risks, including but not limited to difficulties in the assimilation of the management, operations, services, products and personnel and the possible diversion of management attention from other business concerns. The successful implementation of its growth strategies depends on its ability to identify suitable partners and the successful integration of their operations with its. There can be no assurance that the Target Company will be able to execute such growth strategies successfully and if so, the performance of any strategic alliances, acquisitions or investments could fall short of expectations.

6. EVALUATION OF THE PROPOSED REVIEW PROCEDURES FOR INTERESTED PERSON TRANSACTIONS

6.1 General

Background information on the Interested Persons and the nature of the Mandated Transactions are set out in Sections 3, 11, 12 and 13 of the Circular.

Upon the completion of the Acquisition, it is anticipated that the Group would, in the ordinary course of business, continue to enter into certain transactions with the Interested Persons. It is likely that such transactions will occur with some degree of frequency and could arise at any time and from time to time. In view of the time-sensitive nature of commercial transactions, it would be advantageous for the Group to obtain the Shareholders' Mandate to enter into the Mandated Transactions in its normal course of business, provided that all such transactions are carried out on normal commercial terms and are not prejudicial to the Company and its minority Shareholders.

Pursuant to Chapter 9 of the Listing Manual, transactions entered into by the Group with an interested person that is below S$100,000 in value are not subject to the requirements of Chapter 9. Therefore, the Shareholders' Mandate does not relate to any such interested person transactions. In addition, the Shareholders' Mandate will cover only recurrent transactions of a revenue or trading nature or those necessary for the day-to-day operations of the Group (such as the purchase of supplies and materials and sale of vessels and related products) and will not cover transactions relating to the purchase or sale of assets, undertakings or business.

Transactions with Interested Persons that do not fall within the ambit of the Shareholders' Mandate shall be subject to the relevant provision of Chapter 9 and/or any other applicable provisions of the Listing Manual.

6.2 Categories of Interested Person Transactions

Further information on the Interested Persons is set out in Sections 3, 11 and 12 of the Circular. Upon the completion of the Acquisition, the particulars of transactions with the Interested Persons to which the Shareholders' Mandate will apply are set out below:

Tai'an Yinguang Xinhua Chemical Co., Ltd ("Xinhua")

Xinhua was incorporated on 4 August 2003 with a total amount of registered capital of RMB 5.1 million as of the Latest Practicable Date. Xinhua's registered office is at Wanguanzhuang Road Xishou Taishan Road, Tai'an City, Shandong Province, PRC. Xinhua is principally engaged in the business of manufacturing and sale of TNT explosives, ANFO explosives and emulsion explosives in the PRC.

Xinhua is 94.0% owned by Mr Sun Bowen.

During the period from 1 April 2007 to 31 March 2008, the Target Company sold ammonium nitrate to Xinhua as follows:

	Period from 1 April 2007 to 31 March 2008
Sales to Xinhua	Approximately RMB 15.3 million
Percentage of the Target Company's total revenue	Approximately 34.6%

Upon the completion of the Acquisition, the Group expects to continue to transact with Xinhua in the future.

Shandong Yinguang Qianfeng Chemical Co., Ltd ("Qianfeng")

Qianfeng was incorporated on 7 October 1998 with a total amount of registered capital of RMB 5.266 million as of the Latest Practicable Date. Qianfeng's registered office is at Fangshan Village, Qufu City, Shandong Province, PRC. Qianfeng is principally engaged in the business of manufacturing and sale of TNT explosives, ANFO explosives and emulsion explosives in the PRC.

Qianfeng is approximately 85.7% owned by the Vendor, which is in turn 62.5% and 6.0% owned by Messrs Sun Bowen and Bao Hongwei respectively.

During the period from 1 April 2007 to 31 March 2008, the Target Company sold ammonium nitrate to Qianfeng as follows:

	Period from 1 April 2007 to 31 March 2008
Sales to Qianfeng	Approximately RMB 11.7 million
Percentage of the Target Company's total revenue	Approximately 26.5%

Upon the completion of the Acquisition, the Group expects to continue to transact with Qianfeng in the future.

Mr Sun Bowen is a controlling Shareholder and Managing Director of the Company and Mr Bao Hongwei is a Shareholder and Director of the Company. Messrs Sun Bowen and Bao Hongwei are the directors of the Vendor and has an aggregate direct and indirect interest of 62.4% and 6.0% of the registered capital of the Vendor, respectively as at the Latest Practicable Date.

6.3 Rationale for and benefits of the Shareholders' Mandate

The full text of the Directors' rationale for, and the benefits of adopting, the Shareholders' Mandate can be found in Section 14 of the Circular.

We note, *inter alia*, the following:

(a) Upon the completion of the Acquisition, the transactions with Interested Persons to be entered into by the Group will be in the ordinary course of business and are of a trading nature. They are recurring transactions that are likely to occur with some degree of frequency and arise at any time and from time to time. The Directors are of the view that it will be beneficial to the Group to transact or continue to transact with the Interested Persons in a more expeditious manner;

(b) The Shareholders' Mandate (and its subsequent renewal thereafter on an annual basis) will eliminate the need to convene separate general meetings from time to time to seek Shareholders' approval as and when potential interested person transactions with the Interested Persons arise, thereby reducing substantially the expenses in convening such meetings on an ad hoc basis, improving administrative efficacy, allow resources to be channeled towards attaining other corporate objectives and pursuing business opportunities which are time-sensitive in nature; and

(c) The Shareholders' Mandate is intended to facilitate transactions in the Group's normal course of business which are transacted from time to time with the Interested Persons, provided that they are carried out on normal commercial terms and are not prejudicial to the interests of the Company and minority Shareholders.

6.4 Guidelines and review procedures for the Mandated Transactions

In general, there will be procedures established by the Group to ensure that the Mandated Transactions with the Interested Persons are undertaken on an arm's length basis and on normal commercial terms consistent with the Group's usual business practices and policies, and on terms which are generally no more favourable to the Interested Persons than those extended to unrelated third parties.

In particular, the following review procedures will be implemented in respect of sales by the Target Company to Xinhua and Qianfeng:

Review Procedures

(a) 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 an Interested Person), both of whom have no interest, directly or indirectly in the transaction. The head of finance and the Director will obtain comparable market prices, contemporaneous in time. The selling prices and terms of at least two other successful ammonium nitrate sales of similar nature by the Target Company to non-interested third parties will be used as comparison. The selling prices shall not be lower than the lowest sale price of the other transactions with non-interested third parties;

(b) The transactions will be entered into with the Interested Person 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, customer requirements and specifications, duration of contract, preferential rates, discounts or rebates for bulk purchases, and cost for freight; and

(c) In relation to any sale of ammonium nitrate to the Interested Persons where it is impractical or impossible to compare the selling prices to unrelated third parties for similar products, and the transaction price will be determined in accordance with the Group's usual business practices and pricing policies (including its 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, customer requirements and specifications, duration of contract, preferential rates, discounts or rebates for bulk purchases, and cost for freight will be taken into account.

Additional Review Procedures

(a) The Audit Committee will review, on a yearly basis, all transactions with the Interested Persons that have a value below S$100,000;

(b) In addition, a threshold limit equivalent to 5% of the latest audited NTA of the Group (equivalent to approximately RMB 13.7 million based on the Group's audited NTA of approximately RMB 274.5 million as at 31 March 2008) for each interested person transaction (the "**Threshold Limit**") will be applied. The aggregate value of the transactions with Xinhua for the 12-month period from 1 April 2007 to 31 March 2008 was approximately RMB 15.3 million, while that for Qianfeng was approximately RMB 11.7 million. Both Xinhua and Qianfeng are major customers of the Target Company.The Threshold Limit has been set and is regarded as reasonable by the Independent Directors based on (i) the anticipated value of potential transactions that the Target Company may enter into with the Interested Persons going forward and (ii) the review procedures set out above and the various approval limits to be implemented for such transactions with the Interested Persons;

(c) Where an interested person transaction exceeds the Threshold Limit, such transaction must be reviewed and approved by the Audit Committee prior to the Target Company entering into such a transaction; and

(d) Where an interested person transaction does not exceed 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 will be reviewed on at least a half-yearly 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.

In summary, each of the transactions with the Interested Persons in relation to the sale of ammonium nitrate 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 are not Interested Persons as follows:

Approval Limits	**Relevant Approving Authority**
Transactions above S$100,000 but not exceeding 3% of the Group's NTA	1 Director and the head of finance (China Operations)
Transactions above 3% of the Group's NTA but not exceeding the Threshold Limit	2 Directors and the head of finance (China Operations)
Transactions above the Threshold Limit	The Audit Committee

Interested Person Transaction Register

Each of an interested person transaction will be properly documented and the Company will maintain a register of all such an interested person transaction entered into with the Interested Persons.

Periodic Review

(a) The Audit Committee will carry out reviews of all interested person transactions of a value equivalent to or greater than S$100,000 on at least a half-yearly basis, and all interested person transactions of a value below S$100,000 on a yearly basis to (i) ensure that the established guidelines and review procedures for the interested person transactions 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 interested person transactions are conducted on normal commercial terms, are in the interest of the Company and are not prejudicial to the interests of the Company and its minority Shareholders; and

(b) If, during these reviews, the Audit Committee is of the view that the above guidelines and review procedures have become inappropriate or have become insufficient to ensure that the interested person transactions will be conducted on normal commercial terms, are in the interest of the Company and are not prejudicial to the interests of the Company and its minority Shareholders, the Company will seek a fresh mandate from the Shareholders based on new guidelines and review procedures for transactions with the Interested Persons. During the period prior to obtaining a fresh mandate from the Shareholders, all interested person transactions with the Interested Persons will be subject to prior review and approval by the Audit Committee.

For the purposes of the above review of the internal controls and review procedures, any of the Directors or a member of the Audit Committee who is not considered independent, will abstain from participating in the Audit Committee's review of the internal controls and review procedures.

Disclosure in the Annual Report and Announcements

Pursuant to Rules 907 and 920(1) of the Listing Manual, the Company is required to:

(a) disclose in the Company's annual report the aggregate value of transactions conducted pursuant to the Shareholders' Mandate during the current financial year, as well as in the annual reports for the subsequent financial years during which the Shareholder Mandate is in force; and

(b) announce the aggregate value of transactions conducted pursuant to the Shareholders' Mandate for the relevant financial periods which it is required to report.

The 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. CONCLUSION

7.1 The Acquisition

In arriving at our opinion on whether the financial terms of the Acquisition are on normal commercial terms and are not prejudicial to the interests of the Company and its minority Shareholders, we have considered the following:

(a) the amount of the Equity Interest payable by the Purchaser pursuant to the Acquistion is at a slight discount to the Target Company's NTA as at 31 March 2008;

(b) the amount of the Equity Interest payable by the Purchaser pursuant to the Acquisition is at a discount to the Market Value of a 100% equity interest in the Target Company as determined by Censere (based on the discounted cash flow method) and is therefore supported by the Valuation Report of the Target Company carried out by Censere as the Independent Valuer;

(c) the aggregate Market Value of the fixed assets of the Target Company as determined by Censere (based on, *inter alia*, the replacement cost of new assets, accrued depreciation and comparable transactions) resulted in a valuation surplus of approximately RMB 7.9 million over the aggregate net book value of the fixed assets as at 31 March 2008;

(d) the Acquisition will have no material financial effect on the Company;

(e) the rationale for the Acquisition; and

(f) the risk factors faced by the Target Company.

Based on the above, Provenance Capital is of the opinion that the financial terms of the Acquisition are on normal commercial terms and are not prejudicial to the interests of the Company and its minority Shareholders.

7.2 The Proposed Shareholders' Mandate

In arriving at our opinion on whether the guidelines and review procedures for determining the transaction prices and terms of the Mandated Transactions for purposes of the Shareholders' Mandate as set out in Section 15 are sufficient to ensure that the Mandated Transactions will be carried out on normal commercial terms and will not be prejudicial to the interests of the Company and minority Shareholders, we have considered the following:

(a) the Directors' rationale for, and the benefits accruing to the Group arising from, the Shareholders' Mandate;

(b) the classes of Interested Persons and categories of the Mandated Transactions to be covered by the Shareholders' Mandate; and

(c) the guidelines and review procedures for the Mandated Transactions.

Based on the above, Provenance Capital is of the opinion that the guidelines and review procedures for determining the transactions prices and terms of the Mandated Transactions as set out in Section 15 of the Circular, if adhered to, are sufficient to ensure that the Mandated Transactions will be carried out on normal commercial terms and will not be prejudicial to the interests of the Company and minority Shareholders.

Our recommendations are addressed to the Independent Directors for their benefit, in connection with and for the purposes of their consideration of the Acquisition and the Shareholders' Mandate, but any recommendations made by the Independent Directors in respect of the Acquisition and the Shareholders' Mandate shall remain their responsibility. Our recommendations may not be used and/or relied on by any other person for any purpose at any time and in any manner without our prior written consent in each specific case except for the purposes of considering the Shareholders' resolutions in relation to the Acquisition and the Shareholders' Mandate.

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. Nothing herein shall confer or be deemed or is intended to confer any right of benefit to any third party and the Contracts (Rights of Third Parties) Act, Chapter 53B, of Singapore and any re-enactment thereof shall not apply.

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

Wong Bee Eng Chief Executive Officer	Terence Lim Director

Censere

Appraise - Assist – Advise

Our reference: F00013-2-r2

1st May 2008

The Directors
Fabchem China Limited
39 Fishery Port Road
Jurong
Singapore 619745

Dear Sirs,

In accordance with your instructions, we have undertaken an investigation and analysis to determine Market Values of a 100% equity interest in Hebei Yinguang Chemical Co., Ltd (河北银光化工有限公司) ("Hebei Yinguang" or the "Company") and its fixed assets as at 29th February 2008 ("Valuation Date"). This letter summarises the principle conclusions of our detailed valuation report dated 1st May 2008 (Censere Reference No. F00013-2-r1).

Introduction

Hebei Yinguang is a wholly owned subsidiary of Shandong Yinguang Chemical Group Co. Ltd (山东银光化工集团有限公司) ("Yinguang Group"). Fabchem China Ltd ("Fabchem") is currently in negotiation with Yinguang Group to acquire the entire 100% equity interest in Hebei Yinguang ("Proposed Acquisition").

Sun Bowen and Bao Hongwei are both major shareholders and directors of Fabchem. They are also directors and shareholders of Yinguang Group with a direct and indirect equity interest in 62.4% and 6.0% of Yinguang Group respectively. Accordingly, the Proposed Acquisition is deemed to be an Interested Person transaction as per the Listing Manual of Singapore Exchange Securities Trading Limited ("SGX-ST").

Purpose of Valuation

The Listing Manual requires shareholder approval for any Interested Person transaction equal to or greater than 5% of the latest audited net tangible assets. As the Proposed Transaction is expected to be more than 5% of the latest audited consolidated net tangible assets of Fabchem, the Company is required to seek a specific approval from shareholders of Fabchem for the Proposed Acquisition.

Censere has been instructed by Fabchem to undertake an independent valuation of a 100% equity interest and valuation of the fixed assets of Hebei Yinguang. The valuation report will be included in the circular seeking a specific approval from shareholders to proceed with the Proposed Acquisition.

Basis of Valuation

This valuation has been undertaken on a Market Value basis. Market Value is defined as the estimated amount for which an asset should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

For this assignment, we have not carried out any work in the nature of a feasibility study nor are we required to express a viability opinion on any proposed transaction. We have not verified or confirmed information provided to us and have assumed that all such information is accurate and is not subject to material error or omission.

Sources of Information

The valuation was based largely on the following information provided by the management of Hebei Yinguang (the "Management"):

- Unaudited management accounts of Hebei Yinguang from April 2007 to February 2008;
- Financial forecast of Hebei Yinguang from March 2008 to FY 2018;
- Detailed revenue forecast with assumptions from March 2008 to FY 2018;
- Fixed asset register as at 29th February 2008;
- Discussions with management of Fabchem including Mr Kwek Wei Lee, Finance Manager of Fabchem;
- Discussions with management of Hebei Yinguang including Mr Wu Yuan Jie, Director of Hebei Yinguang; and
- All other information and representations provided by Hebei Yinguang.

In addition, we have held discussions with management of Hebei Yinguang with regards to operational and financial parameters. Please refer to the circular and our valuation report for details to the transaction.

Our assessment is based largely on information provided to us by Hebei Yinguang who is solely responsible for their contents/accuracy. We have not performed any work in the nature of an audit of the information provided to us and accordingly have not expressed any audit opinion in this report. We have no reason to believe the information provided to be either inaccurate or incomplete, however, any error or omission relating to information provided could have a material impact on the results of our investigation.

Valuation Methodology

Normally, in an appraisal investigation, an estimation of Market Value is determined by the application of one or more of three approaches to value: cost approach, market approach, and income approach. These approaches are more fully defined as follows.

The cost approach is a general way of determining a value indication of a business, business ownership interest, or asset by using one or more methods based on the value of the assets of that business net of liabilities. The cost approach establishes value based on the cost of reproducing or replacing an asset, less depreciation from physical deterioration and functional and economic obsolescence, if present and measurable. This approach generally results in an upper limit of value in cases where the assets is easily replaced or reproduced, since no prudent investor would pay more for an asset than the cost to create a comparable asset.

The market approach determines the value of an asset based on the transacted sales of comparable assets in the marketplace. Value represents the expected price that an asset may garner in its marketplace, but it is not an actual price as actual prices represent what one buyer or licensee (in the case of intangible assets) actually paid for a specific asset. Implementation of the market approach includes the analysis of transactional data both of the sale and/or licensing of the subject asset and comparable assets. It also includes an assessment of current market conditions and changes in the market that occurred between the dates of the transactional data and the date of the analysis.

The income approach is based upon an analysis of the expected economic benefits to be derived from a particular asset. This approach is the most common method for valuing income producing assets and is based upon the projected earnings, cost savings or other income measure associated with the ownership of the asset and discounting the measure of value to its present worth. There are numerous methods to derive value that come under the heading of the income approach.

Valuation of Fixed Assets

Land, Buildings and Structures

According to Land Use Right Certificates - Lin Tu (2006) Nos. 2006297, 2006298 and 2006299, the land use rights of the property, comprising a total site area of about 127,402 m^2, is vested in Hebei Yinguang for a term of about 48 years expiring in April 2055, for production and operation uses. The property is currently occupied and engaged in the production of Ammonium Nitrate ("AN"). The property also comprises 94 buildings and various ancillary structures completed in various stages between 1970's and 1990's and has a total gross floor area of about 32,186 m^2.

Building Ownership Certificate documents for the factory plant indicate a total gross floor area of about 20,501 m^2 including two residential units which are located outside the main production area and are used for staff quarter purposes. Hebei Yinguang has provided a written confirmation on valid ownership to all land and building and we have assumed that the Company has valid title to all property interests and they are allowed to be used as per their existing state in our valuation.

In valuing the property interest which is to be acquired by Fabchem, we have valued the property interest on the basis that the properties are to be used as in the existing state. We have assumed that all the approvals for the use of the properties have been obtained. Where, due to the nature of the buildings and structures of such property interests in the People's Republic of China, there are no market sales comparable readily available, the property interests have been valued on the basis of depreciated replacement cost.

Depreciated replacement cost is defined as "the aggregate amount of the value of the land for the existing use or a notional replacement site in the same locality, and the gross replacement cost of the buildings and other site works, from which appropriate deductions may then be made to allow for age, condition, economic or functional obsolescence and environmental factors etc.; all of these might result in the existing property being worth less to the undertaking in occupation than would a new replacement". This opinion of value does not necessarily represent the amount that might be realized from the disposal of the subject property in the open market, and this basis has been used due to the lack of an established market upon which to base comparable transactions.

The depreciated replacement cost approach generally furnishes the most reliable indication of value for property in the absence of a known market based on comparable sales.

In preparing our valuations, we have complied with all the requirements contained in the Rules Governing the Listing of Securities issued by The Stock Exchange of Singapore and the HKIS Valuation Standards on Properties (First Edition 2005) published by the Hong Kong Institute of Surveyors.

Machinery and Equipment

The machinery and equipment being valued are located at Chenlin, Linxi County, Hebei Province of the People's Republic of China. The machinery and equipment comprise inter alia recycling systems, ammonia synthesizing equipment, methanol producing equipment, gas producers, electrostatic anti-tar systems, anti-carbon systems, nitric acid/ammonium nitrate production systems, pumps, tanks, metal works machines, power distribution equipment, office equipment and vehicles.

We have considered and excluded the income approach due to insufficient financial data being available. We have used both the cost approach and the market approach in arriving at our estimate of Market Value, however, due to the fact that there is only limited second-hand market information available, we have placed most emphasis on the cost approach.

In arriving at our valuation, we have given consideration to the following:

- the Replacement Cost New of the assets;
- accrued depreciation;
- continuation of current use in their present location;
- current prices for similar used equipment in the second-hand market; and
- the extent, character and utility of the assets as an integrated whole.

Replacement Cost New is the estimated amount of money needed to acquire in like kind and new condition an asset or group of assets taking into consideration current prices of materials, manufactured equipment, labour, contractor's overhead, profit and fees, and all other attendant costs associated with its acquisition, but without provision for overtime or bonuses for labour and premium for materials.

Our Replacement Costs New were developed by reference to and indexing of historical cost information and by discussion with original suppliers regarding current costs for comparable items. We have made allowances for freight, installation and commissioning, import tariffs, non-recoverable taxes, finance charges and other fees. In determining our Replacement Costs New, we have conducted an inspection of the site, perused accounting records, conducted interviews with senior engineering and accounting staff and obtained and reviewed detailed drawings and specifications relating to the plant and machinery.

Accrued depreciation is the combined loss of value arising from physical deterioration, functional obsolescence and economic obsolescence. This is evidenced by the current observed condition, age, past and present maintenance policy, rebuilding history, prospective service ability in comparison with new units of like kind and current and expected utilization.

In arriving at values using the market approach, we have obtained, where possible, data relating to transactions of similar items in the secondary market and have made adjustment to these transactions depending on the date of transaction, differences between the items under review and the comparable and the underlying basis of the transaction. Further provision was then made for shipping, installation, commissioning and other factors necessary to replicate the existing facilities.

Off Balance Sheet Fixed Assets

We have been instructed to conduct a desktop valuation of 383 items of machinery and equipment which were not in the Fixed Asset Register and were not included in the balance sheet as at 29th February 2008 ("OBS Fixed Assets"). These OBS Fixed Assets comprise pipelines, fitting/accessories, power cables and components of the production lines, such as tanks and boilers etcetera. The valuation of these OBS Fixed Assets was conducted on a desktop basis and based solely on the information provided. Since there was very limited information provided, we are only able to determine Indicative Market Values of these OBS Fixed Assets.

Key Limitations & Assumptions for Valuation of Fixed Assets

Land, Buildings and Structures

- Hebei Yinguang is in possession of proper legal title to the property and is entitled to transfer the property with the residual term of its land use right at no extra land premium or other onerous payment payable to the Government;
- Hebei Yinguang has the right to lease, mortgage and transfer the interest of the property; and
- Hebei Yinguang has obtained the relevant approval for the operation of the business.

Machinery and Equipment

- No deduction has been made in respect of any grant either available or received, neither has any adjustment been made for any outstanding amounts owed under financing agreements.
- Unless otherwise advised, we have assumed that the assets will continue in their present existing use in the business of the Company.
- Our assessment has been prepared on the assumption that the assets therein are, or are capable of, being utilized as the assets of a profitable undertaking with the benefit of continuity of tenure of land and buildings during the foreseeable future.
- Our report is based on brief visual inspection. We have not carried out a full mechanical survey, nor have we inspected other items of plant which are covered, unexposed or inaccessible. Our assessment is based on the premise that the items are in a condition commensurate with age and usage.
- We did not investigate any financial data pertaining to the present or prospective earning capacity of the operation in which the assets are used. It is assumed that prospective earnings would provide a reasonable return on the appraised value of the assets, plus the value of any assets not included in the valuation, and adequate net working capital.
- We have assumed that the Company has clear title of ownership over all assets included in this assessment.

Valuation of a 100% Equity Interest

In our opinion, the market approach and cost approach are inappropriate for valuing the 100% equity interest in Hebei Yinguang. The use of the cost approach is not appropriate for the valuation of the equity interest as it does not directly incorporate information about the economic benefits contributed by the subject asset or business or business interest. Under the market approach, we have considered several market multiple methods, namely Enterprise Value / Earnings before Interest, Tax Depreciation and Amortization ("EV/EBITDA"), Price to Earnings multiple ("P/E"), and Price to Book multiple ("P/B"). However given that Hebei Yinguang has a very short operating history with high growth potential and negative earnings prior to February 2008, it is difficult to adjust for these parameters in a single multiple factor to accurately reflect the unique status of the Company.

Hebei Yinguang has gone through a restructuring exercise due to insufficient funding for the purchase of the used equipment for Plant 2 and only recommenced operations in April 2007. The Company has high growth potential as explosive manufacturers like Fabchem require AN for its raw materials. It is situated in a strategic location and obtained regulatory approval in 2006 to increase AN production in an industry highly regulated by the Chinese Government. Also, the Chinese Government is currently rationalising the explosives industry and has stopped issuing new licenses for the production of AN. Accordingly, we have relied solely on the income approach in assessing our value of the 100% equity interest in Hebei Yinguang.

We have used the discounted cash flow method ("DCF Method") in assessing the value of a 100% equity interest in Hebei Yinguang. Under the DCF Method, value depends on the present worth of future economic benefits to be derived from the asset being valued. We have used a variant of the DCF Method whereby free cash flow to firm ("FCFF") is reverted to net present value by application of a discount rate appropriate to allow for sufficient return to all claimholders in the firm. In determining the discount rate for Hebei Yinguang, we have taken into account a number of factors including the current market condition and the underlying risks inherent in the business, such as uncertainty risk, liquidity risk, marketability risk, etc. These risk factors have been considered in determining the appropriate discount rate for the valuation. We have used the expected return on equity capital, calculated through the application of the Capital Asset Pricing Model (the "CAPM"), and the expected cost of debt when evaluating the appropriate weighted average cost of capital for the operation of the Company. Under CAPM, the appropriate expected rate of return is the sum of the risk-free return and the equity risk premium required by investors to compensate for the market risk assumed. In addition, the expected rate of return of Hebei Yinguang is expected to be affected by factors that are independent of the general market such as country risk, lack of liquidity, lack of marketability, lack of historical trends and the risk premium for new startups. This variability of the expected rate of return is referred to as the specific risk.

Key assumptions used in the DCF method are:-

Assumptions	Rate
Discount Rate for Hebei Yinguang	18%
Marketability Discount	33%
Perpetual Growth Rate for Reversionary Interest	3% - 5%

The other key input to the DCF Model is the cash flow forecasts themselves. These are based on the financial forecast provided by Hebei Yinguang and adjusted to obtain FCFF.

Key Limitations & Assumptions for Valuation of a 100% Equity Interest

There are several key limitations and assumptions made in preparing our assessment of the Market Value of 100% equity interest in Hebei Yinguang.

We have reviewed the financial forecast for the Company from March 2008 to FY 2018 provided by Hebei Yinguang. We are of the opinion that it is in-line with its accompanying assumptions. Ultimately we have assumed that Hebei Yinguang is able to perform in accordance with the forecast provided to us. In doing so, we have made the following critical assumptions:

- Financial information provided by Management accurately reflects the Company's financial and operating position.
- Hebei Yinguang has provided us the financial forecast from March 2008 to FY 2018. The Company is solely responsible for the contents and estimation, and they are also responsible for the assumptions in the forecast. Censere has not performed any work in the nature of an audit of the information provided to us and accordingly have not expressed any audit opinion in this report.
- The Company shall continue to operate as a going concern and it has sufficient liquidity to achieve the financial forecast and projections.
- There will not be any material changes in political and/or economic conditions under which Hebei Yinguang operates that may adversely affect the valuation of the Company.
- There are no other liabilities including any contingent liabilities or unusual contractual obligations or substantial commitments which would have a material effect on the value of the Company.
- The current owner of the Company has clear and unencumbered title of ownership over all assets included in this assessment.
- Other assumptions specific to a particular valuation approach or certain observations and conclusions are outlined in the ensuing sections of the report.
- The Company continues to operate as a going concern. Its sales, costs, and net profit continue to grow according to the forecast. Its capital expenditure and working capital requirements are estimated accurately as provided for in the projections.
- The Company has sufficient operational resources to support the projected turnover and profitability.
- Hebei Yinguang is dependent on the successful assembly of Plant 2 to raise production capacity from 30,000 to 70,000 tons per year. Management expects Plant 2 to start operation in FY 2009 and installation process has commenced. The used equipment was purchased in 2006 by Linxi Danfei. We were not able to inspect most of the components as they have been sent out for maintenance, modification and repair. We have assumed that the Company will be able to pass the safety certification for each individual component and for the final assembled production line.
- Management has forecast a 15% increase in average selling price of AN in FY 2009 and 5% annual increase from FY 2010 and onwards.

Should any of these assumptions prove to be inaccurate, significant negative impact on the value of Hebei Yinguang could result.

Statement of Value

We are of the opinion that Market Values of a 100% equity interest in Hebei Yinguang and its fixed assets as at 29th February 2008 can be summarised as follows:

Description	Valuation (RMB'000)
Market Value - 100% Equity Interest	11,000
Market Value - Land & Buildings	33,500
Market Value - Machinery & Equipment	10,500
Indicative Market Value - Off Balance Sheet Fixed Assets	13,700

Yours faithfully
For and on behalf of
Censere Singapore Pte Ltd

Brett Shadbolt
Managing Director

Winston Khoo
Executive Director

Appendix 1 - Credentials

Censere is a specialist valuation and advisory firm head quartered in Singapore and having eight offices throughout Asia Pacific. Offices are located at Auckland, Bangkok, Beijing, Hong Kong, Kuala Lumpur, Shanghai, Singapore and Sydney. Censere was established in 2002 and offers comprehensive technical asset, intellectual property and business valuation services to major corporates and leading SME's in the Asia Pacific region. This engagement has been principally undertaken by Brett Shadbolt, Managing Director of Censere Group and Winston Khoo, Executive Director of Censere Group.

Brett Shadbolt is the Managing Director and Founder of Censere Group. He has over 23 years of dedicated valuation experience and has various professional qualifications such as Senior Member of Property Institute of New Zealand, Accredited Senior Appraiser of American Society of Appraisers, Professional Member of Royal Institute of Chartered Surveyors, Registered Business Valuer (HK) and Member of the Hong Kong Securities Institute. Brett has conducted numerous valuations for companies such as Advanced Micro Devices (AMD), China.com Corporation, Keppel Corporation, ExxonMobil and Singapore Airlines. He has written numerous articles about valuation and financial due diligence in emerging markets, and is a regular speaker at conferences on the same topics.

Winston Khoo is an Executive Director of Censere Group. He has over 10 years of cumulated work experience in the United States, China and Singapore relating to investments, financial valuation and advisory and intellectual property valuations. Winston has acted on numerous financial valuation exercises and recent engagements include companies such as NTUC, Singapore Airport Terminal Services, Sembcorp Marine, SMRT, Maxis and Genting Power. Winston has a BSc in Business (with Distinction) from Indiana University, Bloomington, USA, and is a regular speaker at conferences on valuations for business and financial reporting.

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 on 22 September 2008 at 9.00 a.m. at 39 Fishery Port Road, Jurong, Singapore 619745, for the purpose of considering and, if thought fit, passing with or without any modifications the following resolutions:-

ORDINARY RESOLUTIONS -

RESOLVED THAT:-

(1) THE PROPOSED ACQUISITION OF THE ENTIRE EQUITY INTEREST IN HEBEI YINGUANG CHEMICAL CO., LTD. BY THE WHOLLY-OWNED SUBSIDIARY OF THE COMPANY

(a) approval be and is hereby given for the proposed acquisition ("**Acquisition**") by Shandong Yinguang Technology Co., Ltd ("**Purchaser**"), a wholly-owned subsidiary of the Company of the entire equity interest in Hebei Yinguang Chemical Co., Ltd, from Shandong Yinguang Chemical Group Co., Ltd ("**Vendor**") in accordance with the equity purchase agreement dated 19 December 2007 between the Vendor and the Puchaser and any supplemental agreement(s) relating to the Acquisition; and

(b) the directors of the Company and each of them be and are hereby authorised to take such steps and exercise such discretion and do all such acts and things as they or he may deem desirable, necessary or expedient to give effect to the matters referred to in paragraph (1)(a) including, without limitation, to negotiate, execute and authorize the release of, in the name of and on behalf of the Company, all such agreements, deeds, undertakings, forms, circulars, announcements, instruments, notices, communications and other documents and things, and to approve any amendment, alteration or modification to any such document.

(2) THE PROPOSED SHAREHOLDERS' MANDATE FOR INTERESTED PERSON TRANSACTIONS

(a) subject to the passing of Resolution 1 above, approval be and is hereby given, for the purpose of Chapter 9 of the Listing Manual ("Chapter 9"), for the Company, its subsidiaries and associated companies that are entities at risk (as that term is used in Chapter 9), or any of them, to enter into any of the transactions falling within the types of interested person transactions described in the Circular to Shareholders dated 29 August 2008 (the "Circular") with any party who is of the class of interested persons described in the Circular, provided that such transaction are made on normal commercial terms and in accordance with the review procedures for such interested person transactions, and the Shareholders' 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; and

(b) the directors of the Company and each of them be and are hereby authorised to take such steps and exercise such discretion and do all such acts and things as they or he may deem desirable, necessary or expedient to give effect to the matters referred to in paragraph (2)(a) including, without limitation, to negotiate, execute and authorize the release of, in the name of and on behalf of the Company, all such agreements, deeds, undertakings, forms, circulars, announcements, instruments, notices, communications and other documents and things, and to approve any amendment, alteration or modification to any such document.

By Order of the Board

Tan Min-Li
Company Secretary

29 August 2008

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 36 Carpenter Street Singapore 059915 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 the Company's ordinary 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 intends and purposes if used or purported to be used by them.
3. CPF Investors who wish to attend the Extraordinary General Meeting as OBSERVERS have to submit their requests through their respective Agent Banks so that their Agent Banks may register with the Company Sercretary of Fabchem China Limited.

PROXY FORM

I/We ______________________________ (Name and NRIC No.)

of ______________________________

(Address) being a shareholder **of FABCHEM CHINA LIMITED (the "Company**") hereby appoint:-

Name	Address	NRIC/ Passport No.	Number of Shares Represented

and/or (delete as appropriate)

Name	Address	NRIC/ Passport No.	Number of Shares Represented

or failing him/them the Chairman of the Meeting, as my/our proxy/proxies 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 on 22 September 2008 at 9.00 a.m. at 39 Fishery Port Road, Jurong, Singapore 619745 and at any adjournment thereof. 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*
1(a) The Proposed Acquisition of the entire equity interest in Hebei Yinguang Chemical Co., Ltd by a wholly-owned subsidiary of the Company; and		
1(b) The directors of the Company and each of them be and are hereby authorised to take such steps and exercise such discretion and do all such acts and things as they or he may deem desirable, necessary or expedient to give effect to the matters referred to in paragraph 1(a) above.		
2(a) The Proposed Shareholders' Mandate; and		
2(b) The directors of the Company and each of them be and are hereby authorised to take such steps and exercise such discretion and do all such acts and things as they or he may deem desirable, necessary or expedient to give effect to the matters referred to in paragraph 2(a) above.		

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

Dated this ________ day of ______________ 2008

Total Number of Shares held

____

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

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 36 Carpenter Street Singapore 059915, 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.