Igniting the quest for precious resources

Annual Report 2006

FABCHEM CHINA LIMITED

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About Us

Headquartered in the Republic of Singapore, Fabchem is one of the leading manufacturers of commercial explosives in the People's Republic of China ("China"). Our products include explosive devices (boosters and tube charges), industrial fuse and initiating explosive devices (detonating cords and non-electric tubes), as well as industrial detonators (non-electric detonators and piston non-electric detonators).

Fabchem's commercial explosives products are sold to more than 150 customers in the mining, energy exploration, hydroelectric and infrastructure construction industries primarily located in Henan, Shanxi, Zhejiang, Beijing and Shanghai. We have established "Yinguang" as a brand name associated with safe, reliable and quality explosives products. The Ministry of Science and Technology of China recognises Fabchem's wholly-owned subsidiary in China as an advanced and high technology enterprise.

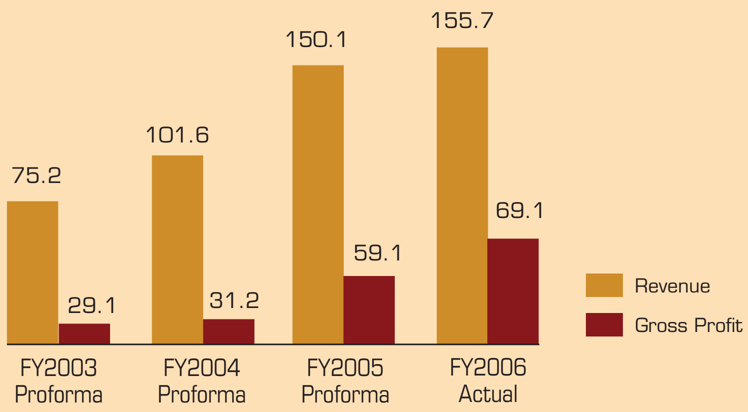
Fabchem's subsidiary in China is the pioneer in the production of boosters which is comparable to international standards. Our boosters are tested and certified by Universal Tech Corporation R&D Laboratory, an authorised inspection institute for initiating explosive devices based in United States of America. Fabchem's boosters are sold in more than 10 countries, including China, the United States of America, Australia, South Africa, Mongolia, India, Kazakhstan and Kyrgyzstan.

Financial Highlights

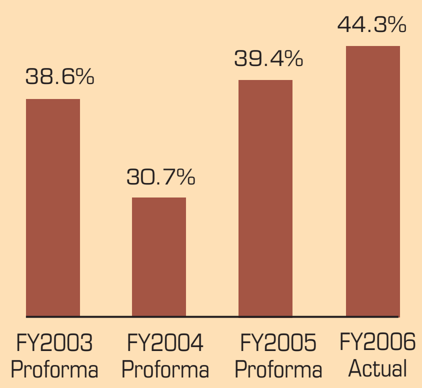
(Financial Year Ended 31 March 2006)

	FY2003 Proforma RMB' 000	FY2004 Proforma RMB' 000	FY2005 Proforma RMB' 000	FY2006 Actual RMB' 000
Group revenue	75,195	101,635	150,110	155,745
Gross profit	29,056	31,249	59,141	69,063
Profit from operations	18,173	22,304	49,784	55,018
(before finance cost and income tax expense)				
Net profit attributable to shareholders	8,820	12,010	35,065	54,081
Earnings per share (cents)	5.04	6.86	20.04	30.90

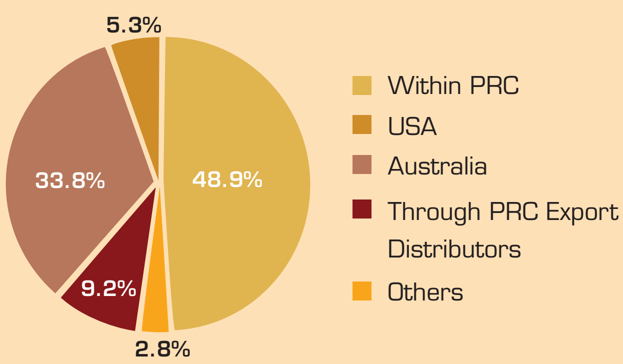
Revenue & Gross Profit RMB ('million)



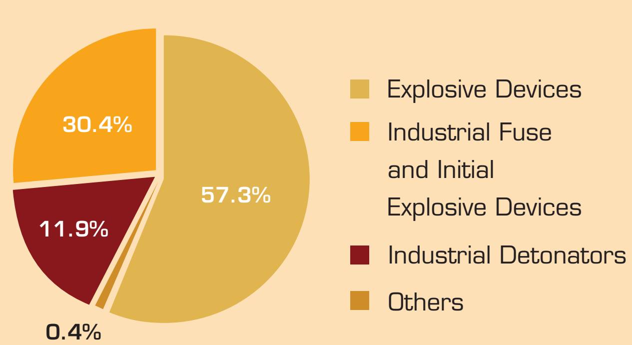
Gross Profit Margin



Revenue Breakdown by Geographical Regions in FY2006



Revenue Breakdown by Products in FY2006



Competitive Strength

High barriers to entry

The necessary permits and licences for manufacturing of explosives are only issued by the Commission of Science, Technology and Industry for National Defense ("Commission") to companies whose production facilities meet the stringent technical and safety standards set by the Commission. This reduces our market competition in China.

Products meet international standards

Our boosters are tested and certified by an authorised inspection institute for initiating explosive devices based in the USA. Our products are sold to large international explosive companies in the USA and Australia such as Orica Limited and Beston Chemical Corporation, which is a testament to the reliability and quality of our products.

Established reputation and track record

We are recognised as an advanced and high technology enterprise by the Ministry of Science and Technology of China. We have established "Yinguang" as a brand name associated with safe, reliable and quality explosive products, and as a testament, more than 90% of FY2005 and FY2006 sales were derived from repeat customers.

Advanced production processes and techniques

Through our product and process development activities, we are able to improve our production process, which results in lower costs of production. We believe we are one of the few companies in China that adopt automated computerised control in the production of explosives. This results in safer and lower costs of production.

Integrated and wide product range

We believe we are one of the few companies in China that manufactures a complete suite of compatible products for commercial detonations. This gives us a competitive edge over other China manufacturers which are only able to manufacture a specific product amongst the whole range of explosive products.

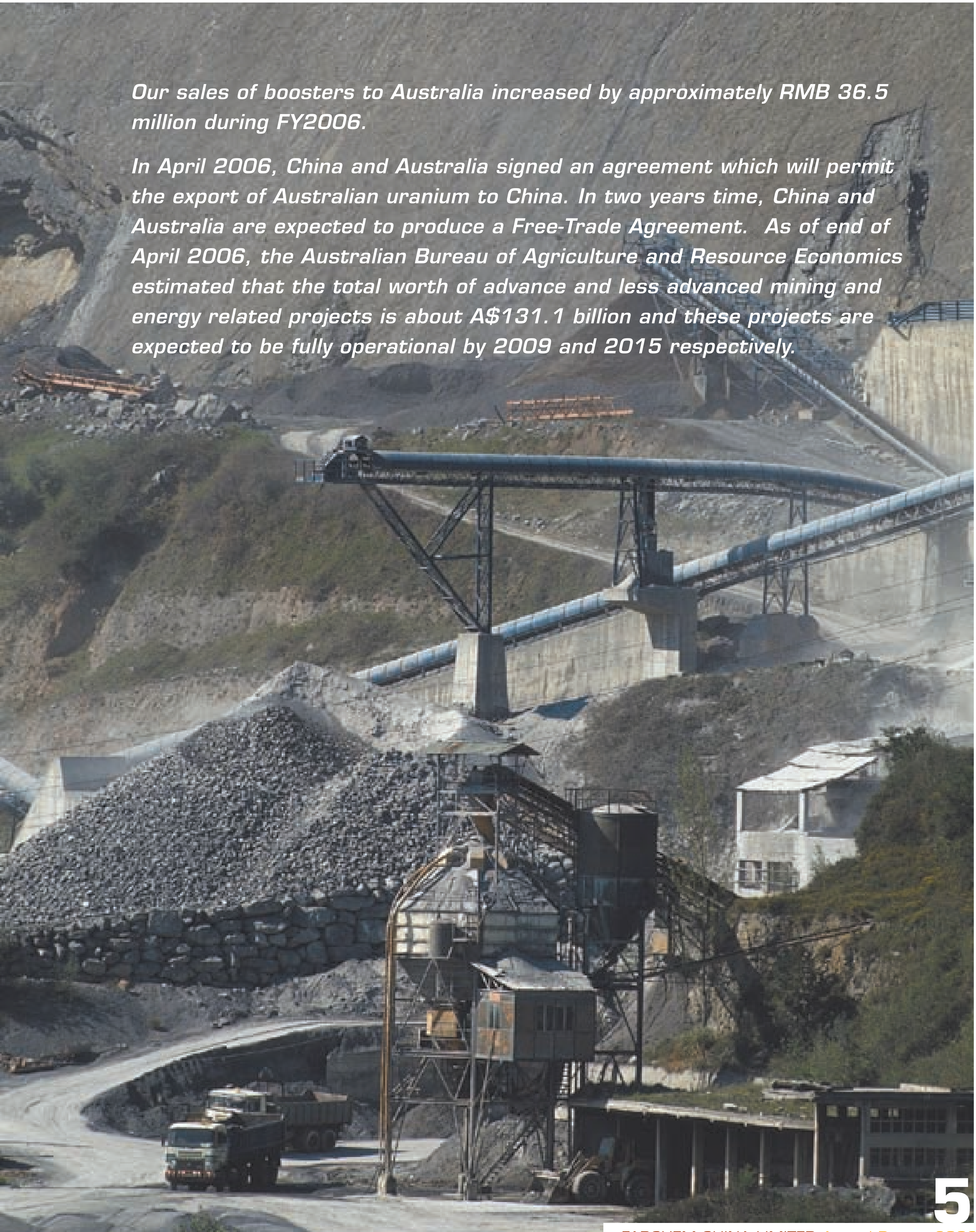
Uncovering valuable minerals and opening up development for advancement

> *Mining*



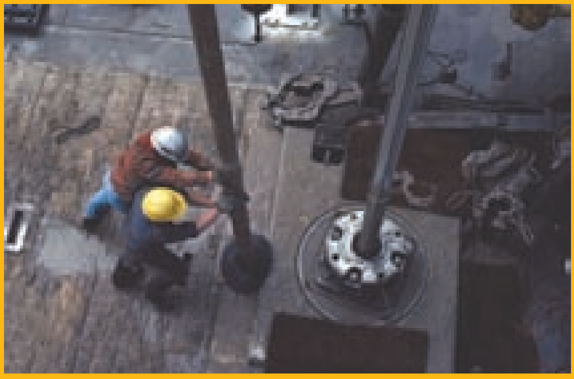
Our sales of boosters to Australia increased by approximately RMB 36.5 million during FY2006.

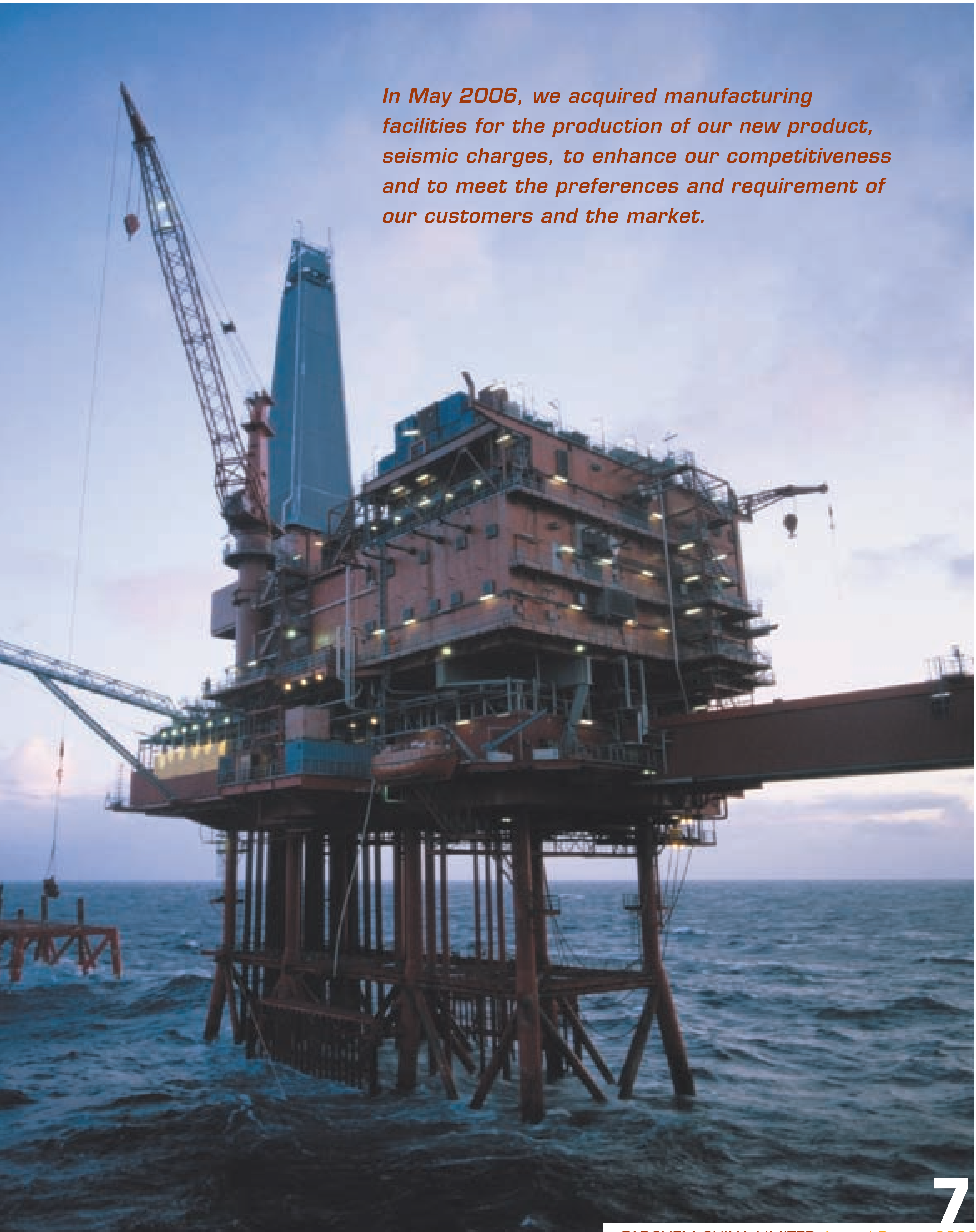
In April 2006, China and Australia signed an agreement which will permit the export of Australian uranium to China. In two years time, China and Australia are expected to produce a Free-Trade Agreement. As of end of April 2006, the Australian Bureau of Agriculture and Resource Economics estimated that the total worth of advance and less advanced mining and energy related projects is about A$131.1 billion and these projects are expected to be fully operational by 2009 and 2015 respectively.



Unleashing the greatest energy resource beneath the earth's surface

> Oil and Gas Exploration

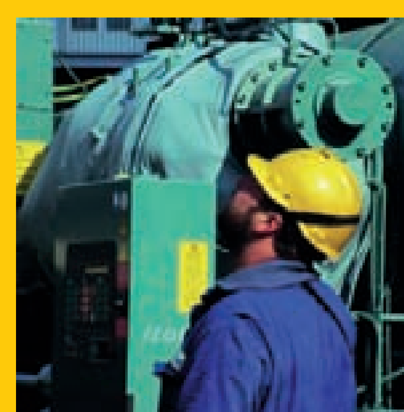
  

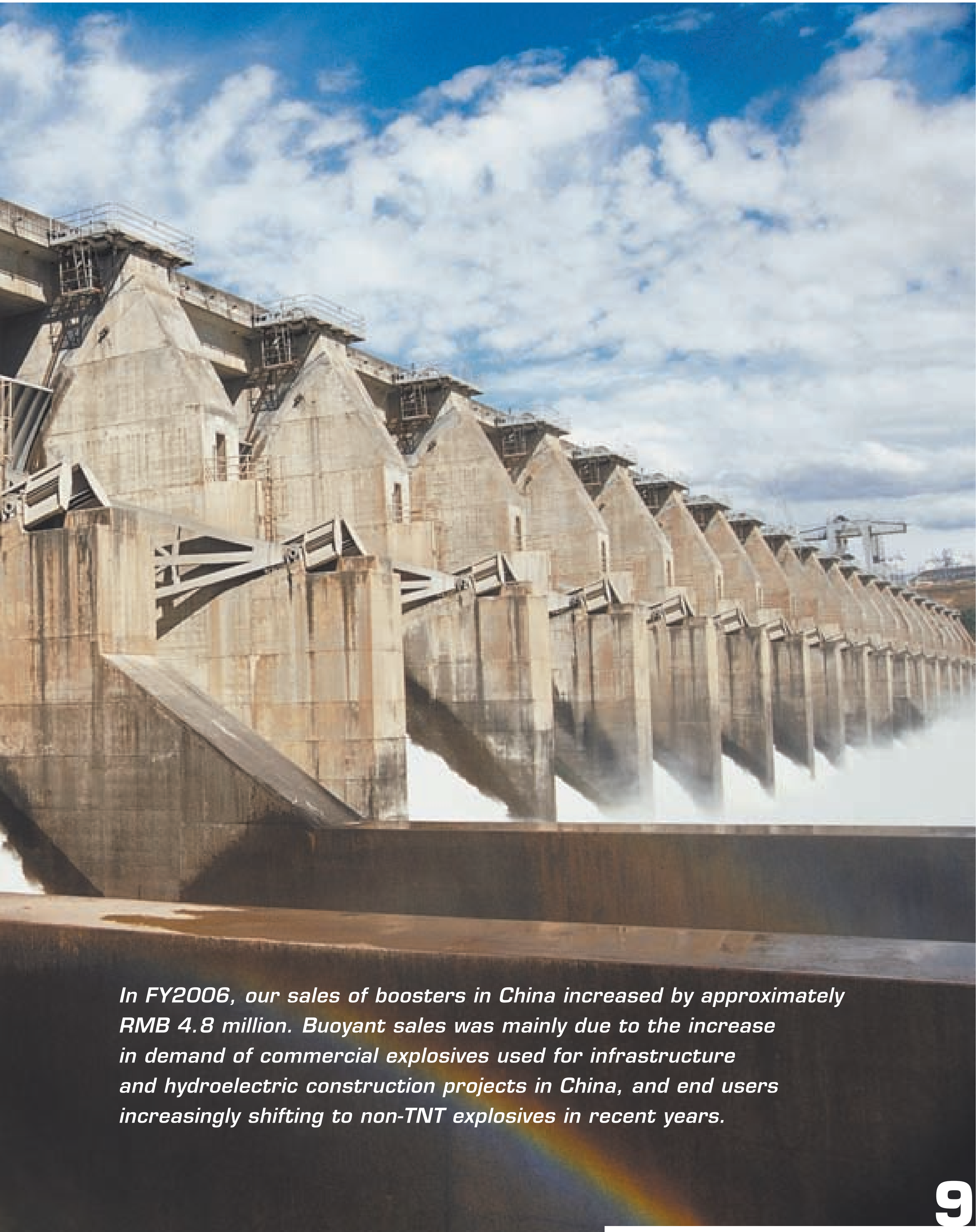

In May 2006, we acquired manufacturing facilities for the production of our new product, seismic charges, to enhance our competitiveness and to meet the preferences and requirement of our customers and the market.

Harnessing the eco-friendly renewable energy of hydroelectricity

> Dam Construction







In FY2006, our sales of boosters in China increased by approximately RMB 4.8 million. Buoyant sales was mainly due to the increase in demand of commercial explosives used for infrastructure and hydroelectric construction projects in China, and end users increasingly shifting to non-TNT explosives in recent years.

Letter to Shareholders

"We are pleased to report that the Group gained a net profit of RMB 54.1 million in FY2006, representing an increase of 54.2% over FY2005. The Group recorded a gross profit margin of 44.3% in FY2006 as compared to 39.4% in FY2005. The 4.9% improvement in the gross profit margin is attributable to the Group's ability to prudently manage its cost and productivity."

1 | 2

1. Sun Bowen
Managing Director

2. Dr. Lim Seck Yeow
Non-Executive Chairman

Letter to Shareholders

A Successful Launch

It is our pleasure to present to you the first annual report issued by the Group since our listing on the Singapore Exchange Securities Trading Official List ("SGX-ST") in April 2006. We have had a very successful launch of our Initial Public Offering ("IPO") with a total of 59 million new shares being issued at 32 cents per share. The performance of our share price was commendable as it stood at 64 cents at the closing of first trading day. This translates to a 100% premium against the IPO price of 32 cents. We would like to extend our utmost appreciation to all the shareholders who subscribed to our newly-issued shares.

Operational and Financial Review for FY2006

China Market

In FY2006, our sales of boosters increased by approximately RMB 4.8 million or 34.5%. Buoyant sales was mainly due to the increase in demand of commercial explosives used for infrastructure and hydroelectric construction projects in China and end users increasingly shifting to non-TNT explosives in recent years.

The Group has introduced a new product called piston non-electric detonators in FY2006. We have achieved revenue of approximately RMB 15.0 million. Our piston non-electric detonators are safer to use, more resistant to abrasion, more environmental friendly and costs lower than other non-electric detonators.

The detonating cords business in China declined in FY2006. The sales decreased by approximately RMB 12.4 million or 25.1% mainly due to the increasing usage of piston non-electric detonators which are attached to non-electric tubes. The decline in sales of detonating cords is mitigated by an increase in sales of piston non-electric detonators.

International Markets

For international markets, we had a substantial improvement in the sales of boosters to Australia amounting to an increase of approximately RMB 36.5 million or 231.6% as compared to the previous financial period. The increase is mainly due to the continued outsourcing of boosters by our major customers in Australia, namely Orica Limited and Beston Australia Pty Ltd ("Beston"). In addition, we had also entered into an exclusive distributorship agreement with Beston which gives them the exclusive rights to distribute our boosters in Australia, New Zealand and South Africa. This assists us in expanding our market presence and strengthening our position in these regions.

Our sales of boosters to the United States of America ("USA") decreased by approximately RMB 24.8 million or 75.2% in FY2006. This was mainly due to the temporary disruptions since the first half of FY2006 till December 2005. In our effort to change the export agent for sales to USA to Beijing Aoxin Chemical Technology Development Co., Ltd ("Aoxin") which offers lower agent fees, our sales to USA was temporarily affected as Aoxin was in the process of rationalising its procedures for exports to USA. Hence Aoxin was temporarily unable to export into USA during the first half of our FY2006. Furthermore, our exports to Orica

Seismic Charge

Boosters

Detonating Cord

Letter to Shareholders

USA and Beston USA are shipped to the Port of Berwick in Louisiana and Hurricane Katrina in late August 2005 had damaged the port, resulting in the postponement of our shipments to USA. We had resumed our sales to Orica USA in December 2005. Consequently, there were no export sales to USA during the first half of FY2006 which caused our full year sales to USA to decrease.

Improved Gross Profit Margin

The Group's gross profit margin increased by approximately 4.9% from 39.4% in FY2005 to 44.3% in FY2006. The increase in gross profit margin in FY2006 was due to the use of alternative explosive chemicals which we purchased from China's State Reserves Bureau ("CSRB") at very competitive prices.

Stronger Cash Flow

The Group has an operational cash flow of approximately RMB 39.6 million during FY2006, which is used to finance its capital expenditure of approximately RMB 0.9 million in the normal course of our operations and to repay the finance expenses of approximately RMB 0.9 million. The Group has a cash balance of approximately RMB 38.5 million as at the end of FY2006. The increase in cash balances is mainly due to the improved debtors' recoverability during FY2006.

Significant Events after FY2006

Our IPO was successfully completed on 17 April 2006. The total capital raised from the IPO amounted to approximately S$18.88 million and total IPO expenses attributed to the IPO amounted to approximately S$2.4 million or RMB 12.0 million. Net IPO proceeds of approximately S$16.5 million were capitalized as the Company's issued and paid up capital.

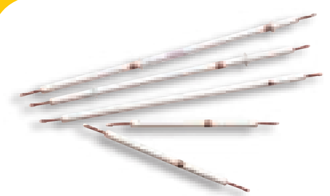
On 22 May 2006, our wholly owned subsidiary in China, Shandong Yinguang Technology Co., Ltd, entered into a sales and purchase agreement with a third party for the acquisition of manufacturing facilities for the production of our new product, seismic charges, to enhance our competitiveness and to meet the preferences and requirements of our customers and the market. The purchase consideration of approximately RMB 12.2 million or approximately S$2.4 million was funded by the net IPO proceeds.

The newly acquired plant and equipment is estimated to produce 3,000 tonnes of seismic charges per annum, which can be translated to approximately RMB 30.5 million of revenue. We commenced commercial productions and sales of seismic charges in May 2006. This acquisition is expected to have a positive impact on the revenue of the Group in FY2007.

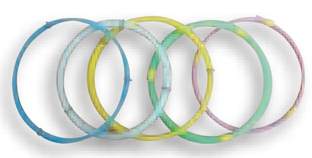
Industry Outlook in China and Australia

In China, the Central Government is encouraging the commercial explosives industry to actively develop new products, adopt new production techniques, import advance technology from overseas, and constantly raise the standards of China's commercial explosive industry and constantly reduce the gap between the standards of China's commercial explosive products and those produced by international explosives companies.

In line with the above, the end users of commercial explosive products in China such as mining, energy exploration and infrastructure construction sectors



Tube Charge



Non-Electric Tube

Non-Electric Detonator

are required to shift from using TNT explosives to environmentally-friendly non-TNT explosives by 2010.

We expect to benefit from the trend as our boosters and detonators are devices required to increase the efficiency of an explosion that uses non-TNT explosives.

Internationally, the mining and energy-related activities in countries such as Australia is expected to increase. During the recent state visit by Chinese Premier Mr. Wen Jiabao to Australia (the first by a Chinese premier in 18 years) in April 2006, China and Australia signed an agreement which will permit the export of Australian uranium to China. Mr. Wen said China and Australia are expected to produce a Free-Trade Agreement ("FTA") in two years. The FTA will boost mining and exploration joint ventures between the two countries.

According to statistics issued by the Australian Bureau of Agriculture and Resource Economics, mining and energy-related activities in Australia are expected to grow further. The Bureau also reported that there are 90 advanced (i.e. committed or under construction) and 166 less advanced (i.e. undergoing feasibility study or pending final decision to proceed) minerals and energy projects ongoing as at the end of April 2006. The total capital expenditure was estimated at A$131.1 billion for these advanced and less advanced projects and they are expected to be fully operational by 2009 and 2015, respectively.

Based on the statistics of the Australian Bureau and the ties between Australia and China, we expect growth in the demand of commercial explosive devices in the Australian market that will further benefit the business operations of our Group.

Igniting Our Quest for Precious Resources and Growth

Our corporate strategy is to develop the Group into a market leader in the commercial explosives industry in China. Based on the report entitled "China Explosives Industry Report" jointly issued by the Commission of Science, Technology and Industry for National Defense and the China Explosive Material Trade Associations in May 2005 and 2006, we are the China manufacturer with the largest export sales of commercial explosives in 2004 and 2005, the China manufacturer with the largest sales volume of boosters in 2004 and 2005 and the largest sales volume of detonating cords in 2005.

Our management will continue to seek opportunities to improve the market position of the Group in China. This can be achieved either through increasing production capacity of existing products or setting up new production facilities that are capable of producing new commercial explosive devices. We will also be looking out for viable mergers and acquisitions activities in China.

Finally, we would like to thank all our shareholders, customers, suppliers, employees and business partners for your unwavering support during the year. We look forward to your continued support and further opportunities for us to grow the Group together.

Sun Bowen
Managing Director

Dr. Lim Seck Yeow
Non-Executive Chairman

亲爱的股东们，

成功上市

这是本集团自2006年4月在新加坡证券交易所主板挂牌上市以来，首次向您提呈公司的年度报告，我们为此感到高兴。在首次公开售股中，集团以每股新元3毛2分的价格共计发行了5900万新股。由于市场反应热烈，售股获得空前成功：在第一个交易日收盘时，股价已攀升至每股6毛4分。换句话说，集团在首次公开售股中所献议的3毛2分的股价取得了一倍的溢价。在此，请允许我们代表集团向所有认购本公司新发行股份的股东表达诚挚的谢意。

2006财政年度经营与财务回顾

中国市场

在2006财政年度，集团的起爆具销售额增加约人民币480万元，增幅达34.5%。销售额上升的主要原因，是中国的基础设施建设和水电施工项目对民爆器材的需求强劲增长，而且近些年，越来越多的最终用户选择使用非梯恩梯类绿色环保型炸药。

集团在2006财政年度引入了一种被称为活塞式导爆管雷管的新产品，其销售利润约为人民币1500万元。这种绿色环保型活塞式导爆管雷管使用更加安全，更耐挤压，而且成本比其他非电雷管更低。

2006财政年度，导爆索业务在中国市场呈下跌态势，销售额约下降了1240万元，跌幅达25.1%。究其原因，我们发现这主要是由活塞式导爆管雷管的使用不断增加造成的。因此，对本集团而言，导爆索销售额下降造成的不利影响，因活塞式导爆管雷管销售额的增加而减小。

国际市场

在国际市场上，起爆具在澳大利亚的销售大幅度增长，销售额与上一个财政年度相比，增长约为人民币3650万元，增幅高达231.6%。这主要是由于集团在澳大利亚的主要顾客，如澳大利亚的奥瑞凯公司与澳大利亚的百事昌公司，继续外包起爆具业务使然。此外，集团还与澳大利亚的百事昌公司签订了独家代理协议，授权该公司在澳大利亚、纽西兰和南非独家代理本公司的起爆具。该举措提升并加强了集团在这些地区的市场地位。

在2006财政年度，集团起爆具在美国的销售额下跌了大约人民币2480万元，跌幅高达75.2%。这主要是由于2006财政年度上半年至下半年之间出口代理的暂时中断造成的。在2006财政年度的上半年，集团更换产品出口美国的销售代理，选择了代理费较低的北京奥信化工科技发展有限公司(以下简称奥信公司)，由于奥信公司需要一段时间理顺其出口美国的各种程序，故而暂时影响了集团出口美国的销售业绩。此外，集团出口给美国的奥瑞凯公司和美国的百事昌公司的产品皆运往路易斯安那州的伯威克港。2005年8月下旬，飓风卡特里那席卷该港口，造成集团运往美国的货物出现延迟。集团已于2005年12月恢复对美国的奥瑞凯公司的销售。由于集团在2006财政年度上半年没有对美国出口，致使其在美国的全年销售额下降。

毛利率获得改善

本集团的毛利率从2005财政年度的39.4%上升到2006财政年度的44.3%，增幅约4.9%。2006财政年度毛利率的增加，主要是因为采用了集团以极富竞争力价格从中国国家物质储备局购得一批替代性炸药。

现金流量更加强劲

在2006财政年度，集团的经营活动产生的现金流量净额约人民币3960万元，其中约90万元用于日常经营活动所需购买固定资产的支出，另约90万元则用于偿还财务费用。集团的期末现金结余约为人民币3850万元。2006财政年度现金结余增加的主要原因，是因为因收帐款的回收率有所增加。

2006财政年度后发生的重大事件

集团的首次公开售股于2006年4月17日圆满结束。通过首次公开售股筹集的总资本额约为1888万新元，而

首次公开售股发生的总支出为240万新元左右，约合人民币1200万元。大致相当于1650万新元的首次公开售股净收益，已被转化为公司的已发行和实收股本。

2006年5月22日，集团的中国子公司山东银光科技有限公司与第三方签订资产转让合同，收购用以生产我们的新产品震源药柱的机器设备，以加强我们的竞争力，迎合市场的需要，满足顾客的要求。该收购价格约为人民币1220万元，合240万新元左右，全部资金来自于首次公开售股的净收益。

新收购的厂房与设备，预计每年可生产3000吨的震源药柱，也就是约人民币3050万元的收入。集团已于2006年5月开始震源药柱的生产与销售。此收购行动预计将对集团2007财政年度的收入产生积极影响。

中国及澳大利亚的行业展望

在中国，中央政府正鼓励民爆器材行业积极开发新产品、采用新的生产工艺、从海外吸收先进技术，并不断比照国际民爆器材，提高本国产品的质量标准。

中国的最终用户，如采矿、能源勘探及基础设施建设行业等，预计将会继续摒弃梯恩梯炸药，转而使用绿色环保型的非梯恩梯炸药。到2010年，民爆器材的生产，必须全部使用绿色环保型的非梯恩梯成分的炸药。

由于本公司生产的产品，包括起爆具、雷管及导爆管在内的产品系列，都属于提高采用非梯恩梯炸药的爆炸效率所需要的民爆器材，预计我们将能从这一趋势中受益匪浅。

在国际市场上，我们预期在澳大利亚等国家，采矿及能源相关活动将会持续增加。在2006年4月温家宝总理访问澳大利亚（18年来中国总理首次访澳）期间，中国与澳大利亚签署一项协议，准许澳大利亚向中国出口铀。温总理说，中国与澳大利亚可望在两年之后签署自由贸易协定，此举无疑将促进两国之间在采矿与勘探领域的合作。

根据澳大利亚农业与经济资源局发布的统计报告，澳大利亚的采矿及能源相关活动预计将会进一步增长。该局的报告还宣称：截止2006年4月底，澳大利亚已立项或正施工的采矿及能源项目共有90个，而正在进行可行性研究或等待最后审批的采矿及能源项目共有166个。所有这些项目的总资本支出估计在1311亿澳元左右，预计它们将分别于2009年与2015年全面投入生产。

由于以上提到澳大利亚的统计报告和中国跟澳大利亚的协议，采矿及能源相关活动预计会出现强劲增长，澳大利亚市场对民爆器材需求将会与日俱增，由此，集团定能从中获益。

寻求宝贵资源，寻求进一步增长

我们的企业战略，是将集团发展为中国民爆器材行业的佼佼者。在国防科学技术工业委员会民爆器材监督管理局与中国爆破器材行业协会于2005年5月和2006年5月联合发布的“中国爆破器材行业工作简报”中，我们是2004年和2005年中国民爆器材外贸销售总值最高的中国生产企业。我们的起爆具的销售量在2004年和2005年以及导爆索的销售量在2005年都是在中国民爆器材生产企业中最多的。

我们的管理层将会继续寻找机会，通过提高现有产品的生产能力或增加能够生产最新民用爆破器材的新设备，提高集团在中国的市场地位。此外，我们还将在中国积极寻找有利可行的并购机会。

最后，我们要感谢我们的所有股东、顾客、供应商、员工及生意伙伴，感谢你们在过去的一年里给予我们的鼎立支持。我们期待继续获得你们的支持，让我们一起为集团的进一步发展壮大而奋斗。

孙伯文	林植耀博士
董事长	非执行主席

Board of Directors

1. ***Dr. Lim Seck Yeow***
   Non-Executive Chairman
2. ***Sun Bowen***
   Managing Director
3. ***Bao Hongwei***
   Executive Director / General Manager
4. ***Ong Tai Tiong Desmond***
   Independent Director
5. ***Lim Hui Min John***
   Independent Director

Dr. Lim Seck Yeow

Non-Executive Chairman

Dr Lim Seck Yeow is our non-executive Chairman and was appointed as our Director on 12 October 2004. He is currently a Director of China Food Industries Limited, a company listed on SGX-SESDAQ. Dr Lim Seck Yeow has more than 40 years of experience in the food-related business. He is a director and founder of Thye Seng Trading Company Private Limited ("Thye Seng"), a company engaged in the business of food distribution. Prior to establishing Thye Seng, Dr Lim Seck Yeow was working as a General Manager in 1972 in Chop Thye Seng, a sole proprietorship in food distribution business started by his father. Dr Lim first started his career as an Assistant Stock Keeper in 1954 with Cold Storage Singapore Ltd, a supermarket group in Singapore. He was promoted to a Sales Manager in 1965 and eventually to the position of Asia Regional Sales Manager in 1969. Dr Lim is also the non-executive Chairman of Zhongguo Powerplus Industries Limited and Zhongguo Jilong Limited.

Dr Lim Seck Yeow holds a hononary Doctorate of Philosophy in Entrepreneurship from Wisconsin International University in the United States.

Sun Bowen

Managing Director

Sun Bowen is our Managing Director and was appointed as our Director on 16 June 2005 and re-elected on 25 July 2005. He is responsible for the overall management and operations of our Group and is also responsible for formulating business strategies and policies of our Group. He has been with our Group since 1980 when Feixian Chemical Factory was first established in 1979. He was a factory manager in Feixian Chemical Factory and thereafter became a majority shareholder of Yinguang Chemical Group. He was also the director and general manager of Shandong Yinguang Chemical Group Co., Ltd ("Yinguang Chemical Group") from December 1997 to May 2004.

Sun Bowen has more than 20 years of experience in the explosives industry. He started as a mechanic in 1966, and thereafter became a technician and factory manager in the period from 1976 to 1993. In March 1993, he became a director of Shandong Yinguang Chemical Industry Co., Ltd ("Yinguang Chemical") till 2004. He is currently a non-executive director of Yinguang Chemical Group, Yinguang Chemical and the managing director of our subsidiary, Shandong Yinguang Technology Co., Ltd.

Sun Bowen obtained his degree in Chemical Engineering from Qingdao University of Science & Technology (formerly known as Qingdao Chemical Institute). In 1989, he was certified as a "Technical Engineer" by the Personnel Bureau of Linyi City. He was also certified by the Personnel Bureau of Shandong Province as a "Senior Technician" in 1996 and "Senior Technical Engineer" in 1999 respectively.

Bao Hongwei

Executive Director / General Manager

Bao Hongwei is our General Manager and was appointed as our Director on 16 June 2005 and re-elected on 25 July 2005. He is responsible for our day-to-day management and operations of our Group.

He joined Feixian Chemical Factory in 1989 as a section manager and was subsequently promoted to deputy factory manager in 1991. In 1997, he was a non-executive director of Yinguang Chemical Group and also a managing director and general manager of Feixian Yinguang Drawnwork Co., Ltd. He is currently a non-executive director of Yinguang Chemical Group, Yinguang Chemical and Feixian Yinguang Drawnwork Co., Ltd and Yinguang Zhicheng Household Co. Ltd.

He obtained a certificate in economics management from the Jinan Workers University in 1994 and a Masters in Business Administration from the Tsinghua University in 2000. He also obtained a Bachelor Degree in Economics Management from the Provincial Party Committee School of Shandong in 2002 and a Master Degree in Administrative Management from Beijing Normal University in 2004.

Ong Tai Tiong Desmond

Independent Director

Ong Tai Tiong Desmond is our Independent Director and was appointed as our Director on 17 February 2006. Currently, he is the Regional Managing Director of DLA Piper Rudnick Gray Cary (Singapore) Pte. Ltd. ("DLA"), an international law firm, where he undertakes the overall responsibility for the business performances of DLA'S South East Asian offices. He is also an independent director of China Food Industries Limited, Airocean Group Limited, Singapore Dance Theatre Limited, Zhongguo Powerplus Industries Limited as well as a non-executive director of Teledata (Singapore) Limited. From December 1998 to 31 May 2003, he was the managing partner of Messrs J Koh & Co. He has also previously practiced at Messrs Rajah & Tann and Messrs Allen & Gledhill.

Mr Ong obtained a LLB (Hons) degree from the National University of Singapore in July 1994 and was admitted as an Advocate and Solicitor of Singapore. He is also admitted as a Solicitor of England and Wales.

Lim Hui Min John

Independent Director

Lim Hui Min John is our Independent Director and was appointed as our Director on 17 February 2006. Currently, he is the business development director of Meinhardt (Singapore) Pte Ltd ("Meinhardt"), a renowned multi-disciplinary engineering and project development consultant, where he undertakes to identify new opportunities, strategically plan, develop and expand Meinhardts business in the region (mainly in China and Pakistan). Mr Lim is also the Chairman of Abterra Ltd.'s Audit Committee since 2003. From 2001 to 2003, he was the Assistant General Manager (Regional Investment) of Keppel Land International Limited, General Manager of Keppel Land (Shanghai) Management & Consultancy Company and a Director of Shanghai One Park Avenue (a Keppel Land's major residential development in Shanghai). From 1995 to 2000, he was the Senior Manager (Business Development, Asset Management & Strategic Planning) of DBS Land Limited and Director & General Manager of a few subsidiaries of DBS Land China Holdings in Shanghai.

Mr Lim obtained a Bachelor Degree in Mechanical Engineering from the National University of Singapore and Master Degree in Business Administration from the National University of Singapore in 1985 and 1993 respectively.

Key Management

Sun Qiang

Sales and Marketing Manager

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

Yang Xingdong

Administrative Manager

Yang Xingdong is our Administrative Manager. He is responsible for the administrative function of our Group. He has been with Yinguang Chemical for 10 years. After graduating from the University of Shandong, he joined our Group as a deputy section manager in 1995, he then became a factory manager in 1998. He was promoted to become an assistant general manager and deputy general manager from 1999 to 2004. He is currently a non-executive director of Yinguang Chemical. He obtained a degree in chemical engineering from the University of Shandong in 1995. He was certified as an "Assistant Technical Engineer" in 1996 and "Technical Engineer" in 2001 by the Personnel Bureau of Fei County and Personnel Bureau of Linyi City respectively.

Kwek Wei Lee

Finance Manager (Group Accounts)

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

Chen Hongyu

Finance Manager (China Operations)

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

Yang Changde

Production Manager

Yang Changde is our Production Manager. He is responsible for the production matters, quality control and technological improvement activities of our Group. After he graduated from Huainan Mining College in 1992 with a degree in Chemical Explosive Products and Technology, he was a section manager of the Technical department in a state-owned chemical factory. He joined Yinguang Chemical as a deputy factory manager in 1997 and was promoted to deputy production manager in 1999.

Corporate Information

BOARD OF DIRECTORS

Dr Lim Seck Yeow	Non-executive Chairman
Sun Bowen	Managing Director
Bao Hongwei	Executive Director
Ong Tai Tiong Desmond	Independent Director
Lim Hui Min John	Independent Director

NOMINATING COMMITTEE

Ong Tai Tiong Desmond	Chairman
Dr Lim Seck Yeow	
Lim Hui Min John	

REMUNERATION COMMITTEE

Ong Tai Tiong Desmond	Chairman
Dr Lim Seck Yeow	
Lim Hui Min John	

AUDIT COMMITTEE

Lim Hui Min John	Chairman
Ong Tai Tiong Desmond	
Dr Lim Seck Yeow	

COMPANY SECRETARY

Tan Min-Li, LLB (Hons), LLM

MAILING ADDRESS

39 Fishery Port Road, Jurong
Singapore 619745

REGISTERED OFFICE

50 Raffles Place #29-00
Singapore Land Tower
Singapore 048623
Tel: (65) 6323 8383
Fax: (65) 6323 8282

COMPANY REGISTRATION NUMBER

200413128G

REGISTRAR AND SHARE TRANSFER OFFICE

Lim Associates (Pte) Ltd
10 Collyer Quay #19-08
Ocean Building
Singapore 049315

INDEPENDENT AUDITORS

RSM Chio Lim
Certified Public Accountants, Singapore
(Member of RSM International)
18 Cross Street #08-01
Marsh & McLennan Centre
Singapore 048423

Partner-in-charge: Ng Thiam Soon, FCPA
Appointment with effect from financial year ended 31 March 2005

PRINCIPAL BANKERS

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

Driving higher performance through higher safety standards

> Safety and Security Compliance

Safety and Security Compliance

The safety of our operations is of paramount importance to us. We have a manual to guide our staff on the important safety procedures which should be adhered to in the production process. We have also established a safety department comprising about six staff which is tasked mainly with ensuring compliance with our internal safety measures. The department conducts routine monthly checks on the safety of our production procedures and constantly reviews our safety measures to ensure that they are adequate for our purposes. Our internal auditors will also conduct checks on whether all of the Group's safety measures and procedures are complied with, and such checks will be reported to the Audit Committee and disclosed in our Company's annual report every year. Please refer to section 3 of the Corporate Governance Report.

The safety aspects of our operations and products are vital to our business. The nature of the explosives industry is such that the raw materials and products are easily subject to explosions during the production process, transportation and storage. Our licences to manufacture explosive products may be revoked by the relevant authorities in the event of any explosions at our production or storage facilities, during the transportation of raw materials or during the usage of our products by the end-users. In view of the above reasons, we adopt stringent safety measures at our production facilities as well as during the transportation and storage of our products and raw materials to keep the risks of explosion at the minimum, such as, inter alia, the following measures:-

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

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

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

Safety and Security Compliance

(b) In addition to the above safety measures, we also comply with the safety regulations promulgated by the Commission, such as the Safety Norms for Designing Civil Explosives Factories and the Regulations on the Administration of Security Technology for Civil Explosives Factories. Safety regulations such as the maximum amount of explosives and number of staff permitted in a factory producing explosives are strictly adhered to in our production facilities and notices containing such information are put up at the entrance of every factory. In addition, to prevent "chain explosions", the distance between our factories in our production facilities are in accordance with the guidelines recommended by the Commission. Our factories are also built in such a way that in the event of any explosion, the impact of the explosion will be directed at a fortified safety wall, which will minimise the impact of the explosion on the surrounding areas. The premises of our production facilities also have safety bunkers for our staff to take shelter during potential explosions.

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

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

In addition to our internal checks, external parties also conduct safety checks on our operations as described below:-

(a) The Linyi Safety Production Bureau conducts safety inspections at least twice every year. The Linyi Safety Production Bureau does not issue an inspection report to our Group, and Yinguang Technology did not receive any negative feedback from the Linyi Safety Production Bureau.

(b) The Commission of Science and Technology of Shandong conducts an inspection on our factory and warehouse safety at least twice every year. The Commission of Science and Technology of Shandong does not issue an inspection report to our Group, and Yinguang Technology did not receive any negative feedback from the Commission of Science and Technology of Shandong.

(c) A production process and warehouse safety inspection is conducted every 3 years by an external party authorised by the Commission. The latest inspection was carried out by Beijing Guoke Hongda Technical Development Co., Ltd from 8 January 2005 to 10 January 2005. Its inspection report dated 20 February 2005 shows that Yinguang Technology obtained a score of 86.3, which is considered as 'Safety Level'. The scoring bands set by the Commission is as follows:-

Safety Level	:	score $\geq$ 85.0
Pass Level	:	85.0 $>$ score $\geq$ 75.0
Critical Level	:	75.0 $>$ score $\geq$ 65.0
Dangerous Level	:	score $<$ 65.0

SECURITY MEASURES

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

(a) A team of trained security guards who are each certified and/or licensed by the local Public Security Bureau guards all of our production facilities and warehouses, oversee the transportation of goods and safeguard our raw materials and finished goods. As at the financial year ended 31 March 2006, we had a security team comprising 63 guards.

(b) Entry into our production facilities and warehouses is restricted strictly to staff and authorised personnel only.

(c) Stringent approval procedures, documentation and checks with respect to the flow of raw materials and finished products are also implemented.

As an indication of the effective implementation of our stringent security measures, there has not been any loss or theft of explosive raw materials or products from our facilities since we commenced our operations.

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

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

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

Our internal auditors will also conduct checks on whether all of the Group's security measures and procedures are complied with, and such checks will be reported to the Audit Committee and disclosed in our Company's annual report every year. Please refer to section 3 of the Corporate Governance Report.

Corporate Governance Report

Fabchem China Limited (the **"Company"**) was admitted to the official list of the Singapore Exchange Securities Trading Limited (**"SGX-ST"**) on 17 April 2006. The Board of Directors (the **"Board"**) of Fabchem China Limited recognizes the importance of good corporate governance in ensuring greater transparency, protecting the interests of the shareholders of the Company (the **"Shareholders"**) as well as strengthening investors' confidence in its management and financial reporting. The Board is committed to maintaining a high standard of corporate governance within the Company and its Subsidiary (the **"Group"**) based on which its operations, businesses and strategies are directed and controlled.

In 2005, the Singapore Council on Corporate Disclosure and Governance introduced enhancements to its Code of Corporate Governance (the **"Code"**). Notwithstanding that the changes in the Code will only take effect from annual general meetings held from 1 January 2007 onwards, the Board has, in line with its commitment to maintaining a high standard of corporate governance, implemented a number of recommendations made in the revised Code of 2005.

This Report describes the Company's corporate governance processes and activities with specific reference to the Code.

1. Board of Directors (the "Board")

1.1 The Board's conduct of its affairs

The primary role of the Board is to protect and enhance shareholder value. Whereas the Board is collectively responsible for the success of the Company, it works with the management of the Company (the **"Management"**) towards achieving this end. The Board reviews Management's performance and the Management remains accountable to the Board. Key roles of the Board include providing entrepreneurial leadership, approving the Company's objectives, major strategic directions and corporate policies, monitoring and reviewing financial and operating performance, approving annual budgets, major funding and investment proposals, risks assessment and management and appointing Board Directors and key managerial personnel. Matters which are specifically reserved for the Board's decision are those involving interested person transactions, material acquisitions and disposal of assets, corporate and financial restructuring, share issuances, dividends and other returns to shareholders.

The Board conducts regular scheduled meetings. Additional meetings may be convened when circumstance require. The Company's Articles of Association provide for meetings to be held via telephone and video conferencing. The Board is supported by the Audit Committee (the **"AC"**), the Nominating Committee (the **"NC"**) and the Remuneration Committee (the **"RC"**).

Newly appointed directors are issued with a formal letter by the Company Secretary setting out the director's duties and advising them of their disclosure obligations under the SGX-ST listing rules and the Companies Act. Management also conducts orientation programs for new directors to familiarize them with the business activities of the group, its strategic direction and corporate governance practices.

During the financial year in review, the attendance of the Directors at Board meetings and Board committee meetings, as well as the frequency of such meetings, is as follows:

	Board		Nomination Committee		Remuneration Committtee		Audit Committee	
Name	**No. of meetings held**	**No. of meetings attended**	**No. of meetings held**	**No. of meetings attended**	**No. of meetings held**	**No. of meetings attended**	**No. of meetings held**	**No. of meetings attended**
Dr Lim Seck Yeow	2	2	1	1	1	1	1	1
Sun Bowen	2	2	1	1	1	1	1	1
Bao Hongwei	2	2						
Ong Tai Tiong Desmond	2	2	1	1	1	1	1	1
Lim Hui Min John	2	1	1	1	1	1	1	1

All the Directors are updated regularly on changes in Company policies, Board processes, corporate governance and

1.2 Board Composition and Balance

The NC reviews the size and composition of the Board and ensures, among other things, that the Board has an appropriate balance of independent directors and that the size of the Board is conducive to effective discussions and decision-making. The Board comprises five directors, two of whom are executive directors, one of whom is the non-executive chairman and the remaining two are independent directors. The NC reviews the independence of each director on an annual basis and adopts the Code's definition of what constitutes an independent director in its review. In particular, it considers a director as independent if he has no relationship with the Group or its officers that could interfere, or be reasonably perceived to interfere, with the exercise of the director's independent business judgment with a view to the best interest of the Company.

As a group, the directors bring with them a broad range of industry knowledge, expertise and experience in areas such as accounting, finance, law, business and management, strategic planning and customer service.

The non-executive directors help to develop proposals on strategy, review the performance of the Management in meeting agreed goals and objectives and monitor the reporting of performance. The non-executive directors also meet regularly without the presence of the Management.

1.3 Role of Chairman and Chief Executive Officer

At Fabchem China Limited there is a clear division of the roles and responsibilities of the Chairman and the Managing Director (equivalent to the position of a Chief Executive Officer). Different individuals assume the Chairman and the Managing Director functions and the posts are, and will remain, separate. Dr Lim Seck Yeow is our non-executive Chairman and assumes responsibility among others, in leading the Board to ensure its effectiveness and promoting high standards of corporate governance. The Managing Director is Sun Bowen who assumes the executive responsibilities of the day-to-day management of Fabchem China Limited. This division of responsibilities has been agreed to by the Board.

1.4 Board Membership

The NC reviews and assesses candidates for directorships before making recommendations to the Board. The NC comprises three members of whom the majority is independent. They are Ong Tai Tiong Desmond, Dr Lim Seck Yeow and Lim Hui Min John. The NC chairman, Ong Tai Tiong Desmond, is not a substantial shareholder and is not directly associated with a substantial shareholder of the Company. Our NC will be responsible for (a) the selection and appointment of new Directors and re-nomination of our Directors having regard to the Director's contribution and performance, (b) determining annually whether or not a Director is independent and (c) deciding whether or not a Director is able to and has been adequately carrying out his duties as a director.

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

The NC determines annually if a director is independent. The NC has the discretion to determine that a director is non-independent even if he does not fall under the circumstances set forth in paragraph 1.2 above and the Code. The NC is also charged with the responsibility of deciding whether a director, particularly when he/she has multiple board representations, is able to carry out his/her duties as a director of the Company.

1.5 Board Performance

The Board will on an annual basis implement a process to be carried out by the NC for assessing the effectiveness of the Board as a whole and for assessing the contribution by each individual director to the effectiveness of the Board.

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

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

The Chairman acts on the results of the performance evaluation, and where appropriate, proposes new members be appointed to the Board or seeks the resignation of directors, in consultation with the NC. Each member of the NC shall abstain from voting on any resolutions and making any recommendations and/or participating in any distributions of the NC in respect of the assessment of his performance or re-nomination director.

1.6 Access to Information

The Board is supplied with relevant information and comprehensive analysis by Management pertaining to matters to be brought before the Board for discussion and decision. Management also ensures that the Board receive regular reports on the Group's financial performance and operations. The Board has separate and independent access to senior management and the Company Secretary at all times. The Company Secretary attends to all corporate secretarial and compliance matters and also attends all Board meetings. To assist Board members in fulfilling their responsibilities, procedures have been put in place for directors to seek independent professional advice, where appropriate, at the expense of the Company.

2. Remuneration Matters

2.1 Procedures for Developing Remuneration Policies

The RC comprises three members of whom the majority is independent. They are Ong Tai Tiong Desmond, Dr Lim Seck Yeow and Lim Hui Min John. The chairman of the RC is Ong Tai Tiong Desmond. Our RC will be responsible for recommending to our Board a framework of remuneration for the Directors and key executives, setting up remuneration policies and determining specific remuneration packages for each Director and key executive based on their performance and also reviewing the remuneration thereof. RC has access to expert professional advice on human resource matters whenever there is a need to consult externally. In its deliberations, the RC takes into consideration industry practices and norms in compensation, in addition to the Company's relative performance to the industry and the performance of the individual directors. The recommendations of the RC will be submitted for endorsement by the entire board. All aspects of remuneration, including but not limited to Directors' fees, salaries, allowances, bonuses, options, long-term incentive schemes and benefits in kind shall be covered by our RC.

The RC meets at least once every financial year. Each member of the RC will abstain from voting on any resolutions and making recommendations and/or participating in any deliberations of the RC in respect of his remuneration package.

2.2 Level and Mix of Remuneration

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

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

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

2.3 Disclosure on Remuneration

The Directors did not receive any remuneration for FY 2006.

The top five Executive Officers' remuneration for FY2006 is as follows:-

Name	FY2006
Sun Qiang[1]	Band I[2]
Chen Hongyu	Band I
Kwek Wei Lee	Band I
Yang Changde	Band I
Yang Xingdong	Band I

Notes:

(1) Sun Qiang is the son of our Managing Director. Apart from him, no employee of the Company and its subsidiary has an immediate family member of a director and whose remuneration exceeded S$150,000 during the financial year ended 31 March 2006.

(2) Band I : compensation of between S$0 to S$250,000 per annum

3. Accountability and Audit

3.1 Accountability

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

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

3.2 Audit Committee

Our Executive Directors will continue to manage the operations of our Company and our Subsidiary, and our AC will provide the necessary checks and balances as set out below. Our AC comprises three members of whom the majority is independent. They are Lim Hui Min John, Ong Tai Tiong Desmond and Dr Lim Seck Yeow. The chairman of the AC is Lim Hui Min John.

Our AC will provide a channel of communication between our Board, our management and our external auditors on matters relating to audit. The responsibilities of our Audit Committee include:

(a) review with the external auditors and where applicable, our internal auditors, their audit plans, their evaluation of the system of internal accounting controls, their letter to management and the management's response;

(b) review the quarterly and annual financial statements and balance sheet and profit and loss accounts before submission to our Board for approval, focusing in particular on changes in accounting policies and practices, major risk areas, significant adjustments resulting from the audit compliance with accounting standards and compliance with the Listing Manual and any other relevant statutory or regulatory requirements;

(c) ensure co-ordination between the external auditors and our management, and review the assistance given by our management to the auditors, and discuss problems and concerns, if any, arising from the interim and final audits, and any matters which the auditors may wish to discuss (in the absence of our management, where necessary);

(d) review and discuss with the external auditors any suspected fraud or irregularity, or suspected infringement of any relevant laws, rules or regulations, which has or is likely to have a material impact on our Group's operating results or financial position, and our management's response;

(e) review our internal auditors' report on their checks on whether all of the Group's safety and security measures and procedures have been complied with, and disclose the results of such checks in our Company's annual report every year (Please refer to section 3.3 of the Corporate Governance Report);

(f) make recommendations to our Board on the appointment, re-appointment and removal of the external auditor(s) and approving the remuneration and terms of engagement of the external auditor;

(g) review interested person transactions (if any) falling within the scope of Chapter 9 of the SGX-ST Listing Manual;

(h) review potential conflicts of interest, if any;

(i) undertake such other reviews and projects as may be requested by our Board, and will report to our Board its findings from time to time on matters arising and requiring the attention of our Audit Committee;

(j) generally undertake such other functions and duties as may be required by the legislation regulations or the Listing Manual, or by such amendments as may be made thereto from time to time;

(k) appoint the internal auditors, when our Company sets up the internal audit function after our listing on the SGX-ST (Please refer to section 3.4 of the Corporate Governance Report);

(l) review the scope and results of the audit and its cost effectiveness, and the independence and objectivity of our external auditors, review the nature and extent of non-audit services, where applicable;

(m) review the significant financial reporting issues and judgments so as to ensure the integrity of the financial statements and any formal announcements relating to our financial performance;

(n) review the effectiveness of our internal audit function;

(o) review arrangements by which our staff may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters; and

(p) review the adequacy of our internal financial controls, operational and compliance controls, and risk management policies and systems established by our management.

Apart from the responsibilities listed above, the AC has explicit authority to investigate any matters within its terms of reference and has full access to and cooperation from management, in addition to its direct access to the external auditors. If required, the AC has authority to seek external resources to enable it to discharge its functions properly, including obtaining legal or other professional advice and services.

The AC has reviewed the annual financial statements of the Company and the Group for the financial year ended 31 March 2006 as well as the auditors' reports thereon. Interested person transactions of the Group in the said financial year have also been reviewed by the AC.

The AC has reviewed with management all the non-audit services provided by the external auditors to the Company and the Group in the financial year ended 31 March 2006. The AC is of the opinion that the independence and objectivity of the external auditors would not be impaired by the provision of these non-audit services.

Each member of our Audit Committee shall abstain from voting on any resolutions in respect of matters in which he is or may be interested.

3.3 Internal Controls

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

The Board is responsible for the overall internal control framework and is fully aware of the need to put in place a system of internal controls within the Group to safeguard shareholders' interests and the Group's assets, and to manage risks. The Board also acknowledges that no cost effective internal control system will preclude all errors and irregularities. A system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can provide only reasonable and not absolute assurance against material misstatement or loss. Based on the confirmation from the management and the report from the Internal Auditor, the Board has reviewed the internal controls, including compliance with the Group's safety and security measures and procedures, and confirmed they are adequate.

3.4 Internal Audit

The Company has set up an Internal Audit ("IA") function to provide internal audit services to our Company. The IA function will report directly to the AC on audit matters and will be overseeing and carrying out the functions of internal audits, prepare timely reports and communications to the various committees, such as audit matters to the AC and administrative and operational matters to the Board. The IA's primary line of reporting is to the Chairman of the AC and administratively, our Managing Director. The IA function will also conduct checks on whether all of our Company's safety and security measures and procedures are complied with and will issue reports to the AC. These safety and security measures are disclosed in the section entitled "Safety and Security Compliance" of this annual report.

4. Communication with Shareholders

4.1 Communication with Shareholders

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

4.2 *Greater Shareholder Participation*

Fabchem China Limited believes in encouraging shareholder participation at general meetings. The Company's Articles of Association allow a shareholder entitled to attend and vote to appoint a proxy who need not be a shareholder of the Company to attend and vote at the meetings. Separate resolutions are proposed on each substantially separate issue at general meetings.

The chairpersons of the Board Committees are present and available to address questions at general meetings. The external auditors are also present to address shareholders' queries relating to the conduct of audits and the preparation and contents of the auditors' reports.

5. Dealings in Securities

The Group has adopted the SGX-ST Best Practices Guide with respect to the dealings in securities for the guidance of directors and officers. Fabchem China Limited's securities trading policy provides that directors and officers of the Group should not deal in the Company's shares during the periods commencing one month before the announcement of the Company's half-year and annual results and ending on the date of the announcement of the relevant results.

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

6. Risk Management

The Company does not have a Risk Management Committee. However, the Management and the Internal Auditor regularly reviews the Company's business and operational activities to identify areas of significant business risks as well as appropriate measure to controls and mitigate these risks. The Management reviews all significant control policies and procedures and highlights all significant matters to the Directors and the AC.

7. Material Contracts

There were no material contracts of the Company or its subsidiaries involving the interests, direct or deemed, of the Managing Director or any Director or controlling shareholders (as defined in the SGX-ST Listing Manual), either entered into or still subsisting at the end of the financial year ended 31 March 2006.

8. Interested Persons Transactions

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

During the financial year ended 31 March 2006, the following Interested Person Transactions were entered into by the Group:

		Aggregate value of all interested person transaction (excluding transactions less than $100,000 and transactions conducted under a shareholders' mandate pursuant to Rule 920)		Aggregate value of all interested person transactions conducted under a shareholders' mandate pursuant to Rule 920 (excluding transactions less than $100,000)	
		Actual	Actual	Actual	Actual
		FY2006	FY2005	FY2006	FY2005
Name of interested person	**Nature**	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**
Shandong Yinguang Chemical Industry Co., Ltd	Rental of manufacturing facilities, offices and warehouses	3,000	1,250	–	–
	Purchase of inventories	12,195	27,890	–	–
	Purchase of plant and equipments	–	6,048	–	–
	Profit transfer pursuant to the Restructuring Exercise *	–	15,403	–	–
Feixian Yinguang Substances Development Co., Ltd	Purchase of packaging materials	8,173	–	–	–
Feixian Yinguang Transport Co., Ltd	Payment of transportation charges	2,466	39	–	–

* Our subsidiary acquired the business from Shandong Yinguang Chemical Industry Co., Ltd ("Yinguang Chemical") pursuant to the restructuring exercise in connection with the proposed listing of the Company on the Singapore Exchange Securities Trading Limited ("Restructuring Exercise"). In accordance with the terms of the acquisition, our subsidiary is entitled to, inter alia, the net profits of Yinguang Chemical from 1 November 2004 which amounted to RMB 15.403 million. This was an one-off transaction as a result of the Restructuring Exercise and will not be undertaken in the future. For more information on the Restructuring Exercise, please refer to our Company's Prospectus dated 5 April 2006.

9. Other Transactions with Beijing Aoxin Chemical Technology Development Co., Ltd ("Aoxin")

Aoxin is connected to our Directors and/or Controlling Shareholders which do not fall within the ambit of the definition of an "Interested Person" under Chapter 9 of the Listing Manual. We may continue with such transactions where the terms relating thereto are in the interest of, or beneficial to, our Group.

Aoxin is an import and export trading company. It is also one of the few export companies in the PRC with the relevant licence to export commercial explosives. Shandong Yinsheng Investments Co., Ltd ("Yinsheng Investments"), who is 54.3% owned by our executive officer, Sun Qiang, has a 22.2% interest in Aoxin. Our Managing Director is also a non-executive director of Aoxin.

We sell our commercial explosives to Aoxin which in turn sells to its customers overseas. In addition, we also engage the services of Aoxin to export our products to our overseas customers as we do not have the relevant licence to export commercial explosives. We negotiate the terms of sales and sign the sales contracts with our overseas customers. The transactions were entered into on normal commercial terms and on arm's length basis.

Nature	Actual FY2006 RMB'000	Actual FY2005 RMB'000
Sales of commercial explosives to Aoxin	11,910	–
Sales of commercial explosives to our overseas customers through Aoxin	42,536	14,684

Financial Contents

Report of the Directors

The directors of the Company are pleased to present their report together with the audited financial statements of the Company and of the Group for the financial year ended 31 March 2006.

1. DIRECTORS AT DATE OF REPORT

The directors of the Company in office at the date of this report are:

Dr Lim Seck Yeow	
Sun Bowen	(Appointed on 16 June 2005)
Bao Hongwei	(Appointed on 16 June 2005)
Ong Tai Tiong Desmond	(Appointed on 17 February 2006)
Lim Hui Min John	(Appointed on 17 February 2006)

2. ARRANGEMENTS TO ENABLE DIRECTORS TO ACQUIRE BENEFITS BY MEANS OF THE ACQUISITION OF SHARES AND DEBENTURES

Neither at the end of the financial year nor at any time during the financial year did there subsist any arrangement whose object is to enable the directors of the Company to acquire benefits by means of the acquisition of shares or debentures in the Company or any other body corporate.

3. DIRECTORS' INTERESTS IN SHARES AND DEBENTURES

The directors of the Company holding office at the end of the financial year had no interests in the share capital of the Company and related corporations as recorded in the register of directors' shareholdings kept by the Company under section 164 of the Companies Act, Cap 50 except as follows :

		Direct Interest	
Name of directors and company in which interest are held	**At beginning of year or date of appointment (a)**	**At end of year (b)**	**At 21 April 2006 (b)**
The Company			
Lim Hui Min John	–	–	60,000

3. DIRECTORS' INTERESTS IN SHARES AND DEBENTURES (Cont'd)

	Deemed Interest		
Name of directors and company in which interest are held	**At beginning of year or date of appointment (a)**	**At end of year (b)**	**At 21 April 2006 (b)**
The Company			
Dr Lim Seck Yeow	520,000	45,500,000	45,500,000
Sun Bowen	1,400,000	122,500,000	122,500,000
Bao Hongwei	80,000	7,000,000	7,000,000

(a) Ordinary shares of S$1 each
(b) Ordinary shares of no par value

By virtue of section 7 of the Singapore Companies Act, Cap 50, Dr Lim Seck Yeow and Mr Sun Bowen are deemed to have an interest in the Company and all the related corporations of the Company.

4. CONTRACTUAL BENEFITS OF DIRECTORS

Since the beginning of the financial year, no director of the Company has received or become entitled to receive a benefit which is required to be disclosed under section 201(8) of the Companies Act, Cap. 50 by reason of a contract made by the Company or a related corporation with the director or with a firm of which he is a member, or with a company in which he has a substantial financial interest, except as disclosed in the financial statements.

There were certain transactions (shown in the financial statements) with corporations in which certain directors have an interest.

5. OPTIONS TO TAKE UP UNISSUED SHARES

During the financial year, no option to take up unissued shares of the Company or any corporation in the Group was granted.

6. OPTIONS EXERCISED

During the financial year, there were no shares of the Company or any corporation in the Group issued by virtue of the exercise of an option to take up unissued shares.

7. UNISSUED SHARES UNDER OPTION

At the end of the financial year, there were no unissued shares of the Company or any corporation in the Group under option.

8. AUDIT COMMITTEE

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

Lim Hui Min John (Chairman of audit committee and Independent Director)
Dr Lim Seck Yeow (Non-executive Chairman)
Ong Tai Tiong Desmond (Independent Director)

The audit committee performs the functions specified by section 201B(5) of the Companies Act. Among others, it performed the following functions:

- Reviewed with the external auditors the external audit plan;
- Reviewed with the external auditors their evaluation of the Company's internal accounting controls, and their report on the financial statements and the assistance given by the Company's officers to them;
- Reviewed the financial statements of the Group and the Company prior to their submission to the directors of the Company for adoption; and
- Reviewed the interested person transactions (as defined in Chapter 9 of the Listing Manual of SGX).

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

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

9. AUDITORS

The auditors, RSM Chio Lim, have expressed their willingness to accept re-appointment. This audit firm was known as Chio Lim & Associates before 11 January 2006.

10. SUBSEQUENT DEVELOPMENTS

There are no significant developments subsequent to the release of the Group's and the Company's preliminary financial statements, as announced on 21 June 2006, which would materially affect the Group's and the Company's operating and financial performance as of the date of this report.

ON BEHALF OF THE DIRECTORS

Sun Bowen
Director

Bao Hongwei
Director

23 June 2006

Statement of Directors

In the opinion of the directors, the accompanying financial statements are drawn up so as to give a true and fair view of the state of affairs of the Company and of the Group as at 31 March 2006, and of the results, changes in equity and cash flows of the Group for the financial year then ended and at the date of this statement there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

ON BEHALF OF THE DIRECTORS

Sun Bowen
Director

Bao Hongwei
Director

23 June 2006

Auditors' Report

To The Members Of FABCHEM CHINA LIMITED

We have audited the accompanying financial statements of Fabchem China Limited for the year ended 31 March 2006. These financial statements are the responsibility of the Company's directors. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Singapore Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the directors, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion,

a) the consolidated financial statements of the Group and the balance sheet of the Company are properly drawn up in accordance with the provisions of the Companies Act, Cap. 50 (the "Act") and Singapore Financial Reporting Standards so as to give a true and fair view of the state of affairs of the Group and of the Company as at 31 March 2006 and the results, changes in equity and cash flows of the Group for the year ended on that date; and

b) the accounting and other records required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.

RSM Chio Lim
Certified Public Accountants

Singapore
23 June 2006

Partner-in-charge of audit: Ng Thiam Soon
Effective from year ended 31 March 2005

Balance Sheets

As at 31 March 2006

	Notes	Group 2006 RMB'000	Group 2005 RMB'000	Company 2006 RMB'000	Company 2005 RMB'000
ASSETS					
Current assets:					
Cash and cash equivalents	4	38,465	682	218	160
Trade and other receivables	5	83,585	50,119	12,011	1,000
Inventories	6	10,953	5,211	–	–
Total current assets		133,003	56,012	12,229	1,160
Non-current assets:					
Investment in subsidiary	7	–	–	35,266	10,266
Plant and equipment	8	5,695	5,752	12	–
Total non-current assets		5,695	5,752	35,278	10,266
Total assets		138,698	61,764	47,507	11,426
LIABILITIES AND EQUITY					
Current liabilities:					
Trade and other payables	9	43,239	20,383	13,388	1,393
Total current liabilities		43,239	20,383	13,388	1,393
Equity attributable to equity holders of the Company:					
Share capital	10	34,687	10,000	34,687	10,000
Reserves	11	60,772	31,381	(568)	33
Total equity		95,459	41,381	34,119	10,033
Total liabilities and equity		138,698	61,764	47,507	11,426

See accompanying notes to financial statements.

Consolidated Income Statement

Year ended 31 March 2006

	Notes	Group 2006 RMB'000	2005 RMB'000
Revenue	12	155,745	40,721
Cost of sales		(86,682)	(22,964)
Gross profit		69,063	17,757
Financial income	13	9	1
Financial expense	13	(937)	–
Distribution costs		(5,833)	(81)
Administrative expenses		(8,221)	(1,779)
Other credits / (charges)	14	–	15,403
Profit before taxation		54,081	31,301
Income tax expense	15	–	–
Profit for the year attributable to equity holders of the Company		54,081	31,301
Earnings per share from continuing operations (expressed in RMB cents)	18		
- Basic		30.90	24.47
- Diluted		30.90	24.47

See accompanying notes to financial statements.

Consolidated Statement of Changes in Equity

Year ended 31 March 2006

Group	Issued Capital RMB'000	Statutory Reserves RMB'000	Foreign Exchange Translation Reserve RMB'000	Retained Earnings RMB'000	Total RMB'000
At date of incorporation	– *	–	–	–	– *
Foreign currency translation difference	–	–	80	–	80
Net income recognised directly in equity	–	–	80	–	80
Net profit for the year	–	–	–	31,301	31,301
Total recognised income and expense for the year	–	–	80	31,301	31,381
Issue of share capital	10,000	–	–	–	10,000
Appropriation for the year	–	4,602	–	(4,602)	–
Balance at 31 March 2005	10,000	4,602	80	26,699	41,381
At 1 April 2005	10,000	4,602	80	26,699	41,381
Foreign currency translation difference	–	–	(3)	–	(3)
Net income recognised directly in equity	–	–	(3)	–	(3)
Net profit for the year	–	–	–	54,081	54,081
Total recognised income and expense for the year	–	–	(3)	54,081	54,078
Capitalisation by bonus issue	24,687	–	–	(24,687)	–
Appropriation for the year	–	5,604	–	(5,604)	–
Balance at 31 March 2006	34,687	10,206	77	50,489	95,459
		(a)	(a)		

(a) Not available for distribution as cash dividends.

* Issued share capital comprises 2 subscriber shares of S$1 each.

See accompanying notes to financial statements.

Consolidated Cash Flow Statement

Year ended 31 March 2006

	2006 RMB'000	2005 RMB'000
Cash flows from operating activities:		
Net profit attributable to Shareholders	54,081	31,301
Adjustments for :		
Depreciation expense	934	296
Interest expense	937	–
Interest income	(9)	(1)
Operating profit before working capital changes	55,943	31,596
Trade and other receivables	(33,466)	(50,119)
Inventories	(5,742)	(5,211)
Trade and other payables	22,856	20,383
Cash generated from / (used in) operations	39,591	(3,351)
Net cash from / (used in) operating activities	39,591	(3,351)
Cash flows from investing activities:		
Purchase of plant and equipment	(877)	(6,048)
Acquisition of subsidiary net of cash acquired (Note 20)	–	–
Interest received	9	1
Net cash used in investing activities	(868)	(6,047)
Cash flows from financing activities:		
Proceeds from issue of shares	–	10,000
Interest paid	(937)	–
Net cash (used in) / from financing activities	(937)	10,000
Net effect of exchange rate changes on consolidation	(3)	80
Net increase in cash	37,783	682
Cash at beginning of year	682	–
Cash at end of year (Note 4)	**38,465**	**682**

See accompanying notes to financial statements.

Notes to Financial Statements

31 March 2006

1. GENERAL

The Company is incorporated in Singapore. The financial statements are presented in Chinese Renminbi (RMB). They are drawn up in accordance with the provisions of the Companies Act, Cap. 50 and the Singapore Financial Reporting Standards. The financial statements were approved and authorised for issue by the board of directors on 23 June 2006.

The Company is an investment holding company. It is listed on the Singapore Exchange Securities Trading Limited on 17 April 2006.

The principal activities of the subsidiaries are described in Note 7 below.

The registered office is: 50 Raffles Place #29-00, Singapore Land Tower, Singapore 048623. The Company is domiciled in Singapore.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ACCOUNTING CONVENTION – The financial statements are prepared under the historical cost convention, modified to include the revaluation of financial assets and financial liabilities as disclosed where appropriate in these financial statements.

BASIS OF PRESENTATION – The consolidation accounting method is used for the consolidated financial statements which include the financial statements made to the balance sheet date each year of the Company and of those companies in which it holds, directly, or indirectly through subsidiaries, over 50 percent of the shares and voting rights (its subsidiaries including special purpose entities). The consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances. All significant intercompany balances and transactions, including income, expenses and dividends, are eliminated in full on consolidation. The results of the investees acquired or disposed of during the financial year are consolidated from the respective dates of acquisition or up to the dates of disposal. On disposal the attributable amount of unamortised goodwill is included in the determination of the gain or loss on disposal.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

CASH AND CASH EQUIVALENTS – Cash and cash equivalents include bank and cash balances and any highly liquid debt instruments purchased with an original maturity of three months or less. Cash for the cash flow statement includes cash and cash equivalents that form an integral part of cash management and cash subject to restriction. Other financial assets and financial liabilities at fair value through profit or loss are presented within the section on operating activities as part of changes in working capital in the cash flow statement.

TRADE RECEIVABLES – After initial recognition at fair value, trade receivables are measured at amortised cost using the effective interest method but short-duration receivables with no stated interest rate are normally measured at original invoice amount unless the effect of imputing interest would be significant. Trade receivables are stated after provision for impairment. A trade receivable amount is regarded as impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition and that loss event has an impact on the estimated future cash flows of the financial asset that can be reliably estimated. The carrying amounts of trade receivables are assumed to approximate their fair value. The amount of the provision is recognised in the income statement. Normally no interest is charged on trade receivables.

OTHER RECEIVABLES – Other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, not held for trading, not designated as available for sale and are not substantially recoverable other than because of credit deterioration which are classified as available for sale. Items with a short duration are not discounted. After initial recognition such financial assets, including derivative that are assets, are measured at their fair values, without any deduction for transaction costs that may be incurred on sale or other disposal, except for the non-current financial assets that are receivables which are measured at amortised cost using the effective interest method less provision for impairment. These items are included in the balance sheet in trade and other receivables as current assets or as non-current assets where the maturities are greater than 12 months after the balance sheet date.

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

SUBSIDIARY – A subsidiary is an entity including unincorporated and special purpose entities that are controlled by the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. In the Company's own separate financial statements, the investment in subsidiary is carried at cost less any provision for impairment in value. The net book value of the subsidiary is not necessarily indicative of the amount that would be realised in the current market exchange.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

BUSINESS COMBINATIONS – Business combinations are accounted for by applying the purchase method. The cost of a business combination includes the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the acquirer, in exchange for control of the acquiree; plus any costs directly attributable to the business combination. Any excess of the cost over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities so recognised is accounted for as goodwill. The excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost is accounted for as "negative goodwill". The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under FRS 103 are recognised at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with FRS 105 Non-Current Assets Held for Sale and Discontinued Operations, which are recognised and measured at fair value less costs to sell. After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is not amortised but is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired. An impairment loss in respect of goodwill is not reversed. There was no negative goodwill.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

PLANT AND EQUIPMENT – Depreciation is provided on a straight-line basis to allocate the gross carrying amounts less their residual values over their estimated useful lives of each part of an item of plant and equipment. The annual rates of depreciation are as follows:

Plant and equipment – 4.8% to 19%

No depreciation is charged for plant and equipment under construction.

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

Plant and equipment are carried at cost less any accumulated depreciation and any accumulated impairment losses. The residual value and the useful life of an asset is reviewed at least at each financial year-end and, if expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate, and the depreciation charge for the current and future periods are adjusted. The gain or loss arising from the derecognition of an item of plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item and recognised in the income statement.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

IMPAIRMENT OF NON-FINANCIAL ASSETS – At each reporting date an assessment is made whether there is any indication that a depreciable or amortisable asset may be impaired. If any such indication exists, an estimate is made of the recoverable amount of the asset. Irrespective of whether there is any indication of impairment, an annual impairment test is performed at the same time every year on an intangible asset with an indefinite useful life or an intangible asset not yet available for use. The impairment loss is the excess of the carrying amount over the recoverable amount and is recognised in the income statement unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease. The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). At each reporting date, non-financial assets other than goodwill with impairment loss recognised in prior periods are assessed for possible reversal of the impairment. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

IMPAIRMENT OF FINANCIAL ASSETS – All financial assets except those measured at fair value through profit or loss are subject to review for impairment. A financial asset or a group of financial assets is impaired and impairment losses are incurred if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Losses expected as a result of future events, no matter how likely, are not recognised.

FINANCIAL LIABILITIES – Financial liabilities when recognised initially are measured at fair value plus, in the case of items not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial liability. After initial recognition these are measured at amortised cost and any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method except for financial liabilities at fair value through profit or loss. Such liabilities, including derivative liabilities, are measured at fair value. Liabilities are classified as current liabilities unless there is an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

LIABILITIES AND PROVISIONS – A liability or provision is recognised when there is a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. These include trade and other payables and where the effect of the time value of money is material, the amount recognised is the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

LEASES AS A LESSEE – Leases where the lessor effectively retains substantially all the risks and benefits of ownership of the leased assets are classified as operating leases. For operating leases, lease payments are recognised as an expense in the income statement on a straight-line basis over the term of the relevant lease unless another systematic basis is representative of the time pattern of the user's benefit, even if the payments are not on that basis. Lease incentives received are recognised in the income statement as an integral part of the total lease expense.

SHARE CAPITAL – Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction from the proceeds. Where the Company reacquires its own equity instruments as treasury shares, the consideration paid, including any directly attributable incremental cost is deducted from equity attributable to the Company's equity holders until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders and no gain or loss is recognised in the income statement.

FAIR VALUE OF FINANCIAL INSTRUMENTS – The carrying values of current financial assets and financial liabilities including cash, accounts receivable and accounts payable approximate their fair values due to the short-term maturity of these instruments. The fair values of long-term debts are not determined unless there are significant items as at the end of the year and are disclosed in the relevant notes.

REVENUE RECOGNITION – The revenue amount is the fair value of the consideration received or receivable from the gross inflow of economic benefits during the period arising from the course of the ordinary activities of the entity and it is shown net of related tax, estimated returns, discounts and volume rebates. Revenue from sale of goods is recognised when significant risks and rewards of ownership are transferred to the buyer, there is neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, the amount of revenue and the costs incurred or to be incurred in respect of the transaction can be measured reliably. Interest revenue is recognised on a time-proportion basis using the effective interest rate that takes into account the effective yield on the asset. Dividend revenue from investments is recognised when the shareholder's right to receive the dividend is established.

FOREIGN CURRENCY TRANSACTIONS – The functional currency of the Group is Chinese Renminbi as it reflects the primary economic environment in which the entity operates. Transactions in foreign currencies are recorded in Chinese Renminbi at the rates ruling at the dates of the transactions. At each balance sheet date, recorded monetary balances and balances measured at fair value that are denominated in foreign currencies are reported at the rates ruling at the balance sheet and fair value dates respectively. All realised and unrealised exchange adjustment gains and losses are dealt with in the income statement.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

FOREIGN CURRENCY FINANCIAL STATEMENTS – The parent Company determines the appropriate functional currency as it reflects the primary economic environment in which the entity operates. In translating the financial statements of the parent Company for incorporation in the combined financial statements the assets and liabilities denominated in currencies other than the functional currency of the Group are translated at year end rates of exchange and the income and expense items are translated at average rates of exchange for the year. The resulting translation adjustments (if any) are accumulated in a separate component of equity.

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

INCOME TAX – The income taxes are accounted using the asset and liability method that requires the recognition of taxes payable or refundable for the current year and deferred tax liabilities and assets for the future tax consequence of events that have been recognised in the financial statement or tax returns. The measurements of current and deferred tax liabilities and assets are based on provisions of the enacted or substantially enacted tax laws; the effects of future changes in tax laws or rates are not anticipated. Income tax expense represents the sum of the tax currently payable and deferred tax. Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same income tax authority. The carrying amount of deferred tax assets is reviewed at each balance sheet date and is reduced, if necessary, by the amount of any tax benefits that, based on available evidence, are not expected to be realised. A deferred tax amount is recognised for all temporary differences, unless the deferred tax amount arises from (a) goodwill for which amortisation is not deductible for tax purposes; or (b) the initial recognition of an asset or liability in a transaction which (i) is not a business combination; and (ii) at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss). A deferred tax liability is not recognised for all taxable temporary differences associated with investment in subsidiary because (a) the Company is able to control the timing of the reversal of the temporary difference, and (b) it is probable that the temporary difference will not reverse in the foreseeable future.

EMPLOYEE BENEFITS – Contributions to defined contribution retirement benefit plans are recorded as an expense as they fall due. The Company's legal or constructive obligation is limited to the amount that it agrees to contribute to the fund. This includes the government managed retirement benefit plan such as the Central Provident Fund in Singapore. For employee leave entitlement, the expected cost of short-term employee benefits in the form of compensated absences is recognised in the case of accumulating compensated absences, when the employees render service that increases their entitlement to future compensated absences; and in the case of non-accumulating compensated absences, when the absences occur.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

SEGMENT REPORTING – A business segment is a distinguishable component of an enterprise that is engaged in providing an individual product or service or a group of related products or services and that is subject to risks and returns that are different from those of other business segments. A geographical segment is a distinguishable component of an enterprise that is engaged in providing products or services within a particular economic environment and that is subject to risks and returns that are different from those of components operating in other economic environments.

CRITICAL JUDGEMENTS, ASSUMPTIONS AND ESTIMATION UNCERTAINTIES

The critical judgements made in the process of applying the Group's accounting policies that have the most significant effect on the amounts recognised in the financial statements and the key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

ALLOWANCES FOR DOUBTFUL ACCOUNTS – An allowance is made for doubtful accounts for estimated losses resulting from the subsequent inability of the customers to make required payments. If the financial conditions of the customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required in future years. Management specifically analyses accounts receivables and analyses historical bad debt, customer concentrations, customer creditworthiness, current economic trends and changes in our customer payment terms when making a judgement to evaluate the adequacy of the allowance for doubtful accounts. At the balance sheet date, the receivables are measured at fair value and their fair values might change materially within the next financial year but these changes would not arise from assumptions or other sources of estimation uncertainty at the balance sheet date.

INVENTORY RELATED ALLOWANCES – A review is made periodically on inventory for excess inventory, obsolescence and declines in net realisable value below cost and record an allowance against the inventory balance for any such declines. These reviews require management to estimate future demand for our products. Possible changes in these estimates could result in revisions to the valuation of inventory.

RISK MANAGEMENT POLICIES FOR FINANCIAL INSTRUMENTS

GENERAL RISK MANAGEMENT PRINCIPLES – The Group's financial instruments comprise some cash and liquid resources, and various items, such as trade and other receivables, trade and other payables, that arise directly from its operations. The main purpose of these financial instruments is to raise finance for the Group's operations. The main risks arising from the Group's financial instruments are credit risk, interest risk, liquidity risk and foreign currency risk. The management reviews and agrees policies for managing each of these risks and they are summarised below.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

CREDIT RISK ON FINANCIAL ASSETS – Financial assets that are potentially subject to concentrations of credit risk and failures by counterparties to discharge their obligations consist principally of cash, cash equivalents and trade and other accounts receivable. The management believes that the financial risks associated with these financial instruments are minimal. The cash and cash equivalents and other liquid financial assets are placed with high credit quality institutions. An ongoing credit evaluation is performed of the debtors' financial condition and a loss from impairment is recognised in the income statement. There is no significant concentration of credit risk, as the exposure is spread over a large number of counterparties and customers unless otherwise disclosed in the notes to the financial statements.

OTHER RISKS ON FINANCIAL INSTRUMENTS – The main risks arising from the Group's financial instruments are interest risk, liquidity risk and foreign currency risk. The operations are financed through retained earnings. There is exposure to interest rate price risk for financial instruments with a fixed interest rate and to interest rate or cash flow risk for financial instruments with a floating interest rate that is reset as market rates change. Interest rate swaps are not used to generate the desired interest profit and to manage the exposure to interest rate fluctuations. There is also exposure to liquidity. As regards liquidity, the policy has to ensure continuity of funding and where necessary a certain percentage of the borrowings should mature in two to five years. There is also exposure to changes in foreign exchange rates arising from foreign currency transactions and balances and changes in fair values. These exposures and changes in fair values from time to time are monitored and any gains and losses are included in the income statement unless otherwise stated in the notes to the financial statements. There is no policy to reduce currency exposures through forward currency contracts, derivatives transactions or other arrangements.

3. RELATED PARTY TRANSACTIONS

A related party is an entity or person that directly or indirectly through one or more intermediaries controls, is controlled by, or is under common or joint control with, the entity in governing the financial and operating policies, or that has an interest in the entity that gives it significant influence over the entity in financial and operating decisions. It also includes members of the key management personnel or close members of the family of any individual referred to herein and others who have the ability to control, jointly control or significantly influence by or for which significant voting power in such entity resides with, directly or indirectly, any such individual. This includes parents, subsidiaries, fellow subsidiaries, associates, joint ventures and post-employment benefit plans, if any.

#3.1 Related companies

The Company is a subsidiary of Fortsmith Investments Limited, incorporated in Samoa, that is also the Company's ultimate holding company. Related companies in these financial statements refer to members of the ultimate holding company's group of companies.

There are transactions and arrangements between members of the group and the effects of these on the basis determined between the parties are reflected in these financial statements.

3. RELATED PARTY TRANSACTIONS (Cont'd)

#3.1 Related companies (cont'd)

The current intercompany balances are without fixed repayment terms and interest unless stated otherwise.

Intragroup transactions and liabilities that have been eliminated in the consolidated financial statements are not disclosed as related party transactions and balance below.

#3.2 Other related parties

There are transactions and arrangements between the Company and related parties and the effects of these on the basis determined between the parties are reflected in these financial statements. The current related party balances are unsecured without fixed repayment terms and interest unless stated otherwise.

Significant other related party transactions:

In addition to the transactions and balances disclosed elsewhere in the notes to the financial statements, this item includes the following: -

	Group Other related parties 2006 RMB'000	 2005 RMB'000
Sales of goods (*)	54,446	14,684
Rental expenses	3,000	1,250
Share of post-acquisition profits from the acquired business (**)	–	15,403
Purchase of goods	21,169	27,890
Purchase of plant and equipment	–	6,048
Distribution expenses	98	–
Freight charges	2,466	–
(*) Included in these amounts are export sales to overseas customers through a related party:	42,536	1,460

(**) During the financial year ended 31 March 2005, the subsidiary company acquired the business from a related party pursuant to the restructuring exercise in connection with the proposed listing on the Singapore Exchange Securities Trading Limited. In accordance with the terms of the acquisition, the subsidiary company is entitled to the net profit of the related party from 1 November 2004 which amounted to RMB 15.4 million.

3. RELATED PARTY TRANSACTIONS (Cont'd)

#3.3 Key management compensation

	Group 2006 RMB'000	Group 2005 RMB'000
Salaries and other short-term employee benefits	524	28

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

	Group 2006 RMB'000	Group 2005 RMB'000
Directors' remuneration of directors of subsidiary company	64	13
Directors' fee of directors of the holding Company	99	–

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

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

#3.4 Other receivables from and other payables to related parties

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

3. RELATED PARTY TRANSACTIONS (Cont'd)

#3.4 Other receivables from and other payables to related parties (cont'd)

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

	Group	
	Director 2006 RMB'000	Other related parties 2006 RMB'000
Other receivables/(other payables):		
Balance at beginning of year	(555)	(493)
Amounts paid out during the year	–	76,443
Amounts received during the year	(1,045)	(77,507)
Balance at end of year - debit / (credit)	(1,600)	(1,557)

	Group	
	Director 2005 RMB'000	Other related party 2005 RMB'000
Other receivables/(other payables):		
Balance at beginning of year	–	–
Amounts paid out during the year	–	–
Amounts received during the year	(555)	(493)
Balance at end of year - debit / (credit)	(555)	(493)

4. CASH AND CASH EQUIVALENTS

	Group		Company	
	2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
Not restricted in use	38,465	682	218	160
Analysis of above amount by currency:				
Chinese Renminbi	38,247	522	–	–
Singapore Dollars	218	160	218	160
	38,465	682	218	160

The carrying amount of cash and cash equivalents approximate their fair value.

The rate of interest for the cash on interest earning account is 1.0% (2005: 1.0%) per annum. The effective interest rate is about 1.0% (2005: 1.0%) per annum.

5. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
Trade receivables;				
Related party (Note 3)	48,033	17,181	–	–
Outside parties	22,344	30,463	–	–
Other receivables and prepayments:				
Related party (Note 3)	55	–	–	–
Loans to business associates (1)	–	746	–	–
Advances to suppliers	650	–	–	–
Advances to staff for business purposes (2)	422	718	–	–
Deferred expenditure (3)	12,009	1,000	12,009	1,000
Prepayment	72	11	2	–
Total trade and other receivables	83,585	50,119	12,011	1,000
Analysis of above amount by currency:				
Chinese Renminbi	71,574	49,119	–	–
Singapore dollar	12,011	1,000	12,011	1,000
	83,585	50,119	12,011	1,000

5. TRADE AND OTHER RECEIVABLES (Cont'd)

The general credit period granted to customers is about 90 days (2005: 90 days). Current receivables with a short duration are not discounted and the carrying values are assumed to approximate the fair value.

	Group		Company	
	2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
Concentration of customers:				
Top 1 customer	48,033	17,181	–	–
Top 2 customers	50,098	22,344	–	–
Top 3 customers	51,685	26,283	–	–

(1) Loans are non-interest bearing and have no fixed repayment terms. Subsequent to 31 March 2005, the loans have been repaid in full.

(2) Advances are non-interest bearing and have no fixed repayment terms.

(3) Deferred expenditure represents expenditure stated at cost, incurred in connection with the proposed listing of the shares of the Company on the Singapore Exchange Securities Trading Limited. The expenditure will be set off against the proceeds from shares issued upon listing. (Note 22)

6. INVENTORIES

	Group		Company	
	2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
At cost:				
Raw materials	5,680	3,339	–	–
Finished goods	5,273	1,872	–	–
	10,953	5,211	–	–
Changes in inventories of finished goods (increase)	(3,401)	(1,872)	–	–
Raw materials and consumables used	72,312	23,331	–	–

7. INVESTMENT IN SUBSIDIARY

	Company 2006 RMB'000	Company 2005 RMB'000
Unquoted equity shares at cost to Company	35,266	10,266

The investment is carried at cost less provision for impairment. Impairment losses recognised in profit or loss for equity investments are not reversed.

The subsidiary held by the Company is listed below:

Name of subsidiary, country of incorporation, place of operations and principal activities	Cost of the Investment 2006 RMB'000	Cost of the Investment 2005 RMB'000	Percentage of equity held by Group 2006 %	Percentage of equity held by Group 2005 %
Shandong Yinguang Technology Co., Ltd. People's Republic of China Production and sale of commercial explosive products (a)	35,266	10,266	100	100

On 6 April 2005, the Company increased its paid up capital in Shandong Yinguang Technology Co., Ltd. by RMB 25 million by capitalisation of dividend receivable.

(a) The statutory financial statements for compliance of the laws of PRC are audited by Shandong Dayu Certified Public Accountant Office. For the purpose of preparing the Group's financial statements, the financial statements are audited by Shandong Huide Certified Public Accountants Ltd., a member of the Chinese Institute of Certified Public Accountants and an approved firm by the China Securities Regulatory Commission.

8. PLANT AND EQUIPMENT

Group	Plant and equipment RMB'000	Construction-in-progress RMB'000	Total RMB'000
Cost:			
At date of incorporation	–	–	–
Additions	6,048	–	6,048
At end of year 31 March 2005	6,048	–	6,048
Accumulated depreciation:			
At date of incorporation	–	–	–
Depreciation for the year	296	–	296
At end of year 31 March 2005	296	–	296
Net book value:			
At end of year 31 March 2005	5,752	–	5,752
Cost:			
At beginning of year 1 April 2005	6,048	–	6,048
Additions	836	41	877
At end of year 31 March 2006	6,884	41	6,925
Accumulated depreciation:			
At beginning of year 1 April 2005	296	–	296
Depreciation for the year	934	–	934
At end of year 31 March 2006	1,230	–	1,230
Net book value:			
At end of year 31 March 2006	5,654	41	5,695

8. PLANT AND EQUIPMENT (Cont'd)

Company	Plant and equipment RMB'000	Construction-in-progress RMB'000	Total RMB'000
Cost:			
At date of incorporation	–	–	–
Additions	–	–	–
At end of year 31 March 2005	–	–	–
Accumulated depreciation:			
At date of incorporation	–	–	–
Depreciation for the year	–	–	–
At end of year 31 March 2005	–	–	–
Net book value:			
At end of year 31 March 2005	–	–	–
Cost:			
At beginning of year 1 April 2005	–	–	–
Additions	18	–	18
At end of year 31 March 2006	18	–	18
Accumulated depreciation:			
At beginning of year 1 April 2005	–	–	–
Depreciation for the year	6	–	6
At end of year 31 March 2006	6	–	6
Net book value:			
At end of year 31 March 2006	12	–	12

9. TRADE AND OTHER PAYABLES

	Group		Company	
	2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
Trade payables;				
Outside parties and accrued liabilities	17,084	30	526	30
Related parties (Note 3)	6,428	12,456	–	–
VAT payables	5,037	6,314	–	–
Other payables:				
Related parties (Note 3)	1,612	493	1,506	493
Director (Note 3)	1,600	555	1,600	555
Subsidiary (Note 3)	–	–	111	–
Outside parties	11,478	535	9,645	315
Total trade and other payables	43,239	20,383	13,388	1,393
Analysis of above amount by currency:				
Chinese Renminbi	29,962	18,990	–	–
Singapore dollar	13,277	1,393	13,388	1,393
	43,239	20,383	13,388	1,393

The average credit period granted by suppliers is about 60 to 90 days (2005: 60 to 90 days).

The other payables are with short-term durations. The notional amount is deemed to reflect the fair value.

10. SHARE CAPITAL

Ordinary shares	Note	Number of shares	Group and Company Issued share capital S$	Issued share capital RMB
Shares of S$1 each				
At date of incorporation	(a)	2	2	10
Capitalisation of shareholders' loan	(b)	1,999,998	1,999,998	9,999,990
Balance at end of year 31 March 2005		2,000,000	2,000,000	10,000,000
Bonus share issue	(c)	5,000,000	5,000,000	24,687,000
		7,000,000	7,000,000	34,687,000
Shares of no par value (*)				
Sub-division of shares	(d)	175,000,000	7,000,000	34,687,000
Balance at end of year 31 March 2006		175,000,000	7,000,000	34,687,000

During the financial year ended 31 March 2005:

(a) 2 ordinary shares of S$1 each were issued at par for cash to the subscribers to the Memorandum and Article of Association.

(b) 1,999,998 ordinary shares of S$1 each were issued at par by the capitalisation of the shareholders' loan.

During the financial year ended 31 March 2006:

(c) the Company capitalised S$5,000,000 from its retained earnings, by way of a bonus issue of 5,000,000 fully-paid new ordinary shares of S$1 each.

(d) the Company sub-divided the 7,000,000 ordinary shares with the issued and paid-up capital of S$7,000,000 in the Company into 175,000,000 ordinary shares.

(*) With the changes to the Companies Act, Cap. 50, effective from 30 January 2006, the concept of par value and authorised capital is removed and there is no share premium account.

The holders of ordinary shares are entitled to receive dividends as and when declared by the Company and carry no right to fixed income. All ordinary shares carry one vote per share without restriction.

11. RESERVES

	Group 2006 RMB'000	Group 2005 RMB'000	Company 2006 RMB'000	Company 2005 RMB'000
Foreign currency translation reserve	77	80	77	80
Statutory reserve (*)	10,206	4,602	–	–
Retained earnings	50,489	26,699	(645)	(47)
	60,772	31,381	(568)	33

(*) The statutory reserves are set up as required under the PRC regulations. A non-distributable reserve is made at a rate of 10% of the net profit after tax of the subsidiary. Contribution to this reserve is no longer required when the reserve reaches 50% of the registered capital. The reserve is to be used in accordance to the circumstances as stipulated in the regulations.

12. REVENUE

	Group 2006 RMB'000	Group 2005 RMB'000
Sale of goods	155,745	40,721

13. FINANCIAL INCOME AND (EXPENSE)

	Group 2006 RMB'000	Group 2005 RMB'000
Financial income:		
Interest income	9	1
	9	1
Financial expense:		
Interest expense	(937)	–
	(937)	–

14. OTHER CREDITS / (CHARGES)

	Group 2006 RMB'000	Group 2005 RMB'000
Share of post-acquisition profits from the acquired business (Note 3)	–	15,403
	–	15,403

15. INCOME TAX EXPENSE

	Group 2006 RMB'000	Group 2005 RMB'000
Current tax expense	–	–

The income tax expense varied from the amount of income tax expense determined by applying the Singapore income tax rate of 20.0% (2005: 20.0%) to profit before income tax as a result of the following differences:

	Group 2006 RMB'000	Group 2005 RMB'000
Profit before taxation	54,081	31,301
Income tax expense at statutory rate	10,816	6,260
Non-allowable items	182	9
Effect of different tax rate in foreign country	7,149	4,075
Tax exemptions	(18,147)	(10,344)
Total income tax expense	–	–

15. INCOME TAX EXPENSE (Cont'd)

Under the Income Tax Law of the PRC Concerning Foreign Investment Enterprises and Foreign Enterprises and various local income tax laws, foreign investment enterprises are subject to the statutory income tax rate of 33% (30% state income tax plus 3% local income tax) unless the enterprises are located in specially designated regions or cities in which more favourable tax rates will apply. The subsidiary of the Group is located in a region where the tax rate of 33% applies. The subsidiary is entitled to income tax exemption for the two years commencing from the first profitable year (after deducting losses carried forward) and a 50% reduction for the succeeding three years. Profits have been derived in the subsidiary's first tax year ended 31 December 2005.

There are no income tax consequences of dividends to shareholders of the Company.

Temporary differences arising in connection with interest in subsidiary are insignificant.

16. EMPLOYEE BENEFITS EXPENSE

	Group	
	2006	**2005**
	RMB'000	**RMB'000**
Employee benefits expense including directors	9,420	3,863
Contributions to defined plans	2,161	783
Total employee benefits expense	11,581	4,646

17. ITEMS IN THE INCOME STATEMENT

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

	Group	
	2006	**2005**
	RMB'000	**RMB'000**
Non-audit fees paid to the statutory auditors of the subsidiary included under administrative expenses	50	–

18. EARNINGS PER SHARE FROM CONTINUING OPERATIONS

Basic earnings per share is calculated by dividing the net profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the financial year.

	Group 2006	Group 2005
The calculation of earnings per share is as follows:		
Net profit attributable to members of the Company (RMB'000)	54,081	31,301
Weighted average number of ordinary shares on issue for basic earnings per share ('000)	175,000	127,924

The Company and Group do not have any discontinued operations.

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

19. OPERATING LEASE PAYMENT COMMITMENTS

At the balance sheet date, the total of future minimum lease payments under non-cancellable operating leases are as follows:

	Group		Company	
	2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
Within 1 year	3,000	3,000	–	–
Within 2 – 5 years	1,750	4,750	–	–
Rental expense	3,000	1,250	–	–

Operating lease payments to a related party represent rentals payable for certain office and factory properties. The lease is for 3 years from 16 November 2004. The lease rental terms are negotiated for an average term of three years.

20. ACQUISITION OF SUBSIDIARY

During the financial year ended 31 March 2005, the Company acquired 100% of Shandong Yinguang Technology Co., Ltd. The fair value of assets and liabilities acquired were as follow :-

	2005 RMB'000
Cash and cash equivalent	10,266
Total purchase consideration	10,266
Less cash and cash equivalent	(10,266)
Net cash flow on acquisition of subsidiary	–

21. STATEMENT OF OPERATIONS BY SEGMENT

Segment reporting policy:

A segment is a distinguishable component of the Group within a particular economic environment (geographical segment) and to a particular industry (business segment) which is subject to risks and rewards that are different from those of other segments.

The primary format, business segments, is based on the Group's management and internal reporting structure. In presenting information on the basis of business segments, segment revenue and segment assets are based on the nature of the products or services provided by the Group. Information for geographical segments is based on the geographical areas where the customers are located.

Inter-segment pricing is determined on an arm's length basis. Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly of corporate assets and liabilities or income statements items that are not directly attributable to a segment or those that cannot be allocated on a reasonable basis.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one year.

The Group has one primary segment which is in the sale of commercial explosive products.

21. STATEMENT OF OPERATIONS BY SEGMENT (Cont'd)

Geographical segments

The following table provides an analysis of the Group revenue by geographical market which is analysed based on the location of the customers and assets:-

31 March 2006

	Revenue RMB'000	Segment Assets RMB'000	Capital Expenditure RMB'000
Within PRC	76,146	126,457	859
Outside PRC:			
Sales through export distributors	14,427	–	–
United States of America	8,197	–	–
Australia	52,566	–	–
Singapore	–	12,241	18
Others (*)	4,409	–	–
	155,745	138,698	877

(*) Others include Kyrghyzstan and Pakistan.

31 March 2005

	Revenue RMB'000	Segment Assets RMB'000	Capital Expenditure RMB'000
Within PRC	22,817	60,604	6,048
Outside PRC:			
United States of America	14,684	–	–
Australia	3,220	–	–
Singapore	–	1,160	–
	40,721	61,764	6,048

22. SUBSEQUENT EVENTS

On 17 April 2006, the Company was admitted to the official list of the SGX-ST. The Company issued a total of 59,000,000 new shares of S$0.32 each. The proceeds of the Initial Public Offering (IPO) amounted to approximately S$18.88 million and were capitalised as the Company's issued and paid up capital, after deducting IPO expenses of approximately S$2.4 million or RMB 12,009,000. The IPO expenses include professional fee of S$320,588 paid to the Company's auditors in relation to IPO.

On 26 April 2006 and 31 May 2006, the Company increased the registered and paid up capital of the wholly-owned subsidiary, Shandong Yinguang Technology Co., Ltd. by RMB 65 million and RMB 12 million respectively. The investment was funded through the net IPO proceeds of the Company.

On 22 May 2006, the subsidiary of the Company, Shandong Yinguang Technology Co., Ltd., entered into a sale and purchase agreement with a third party for the acquisition of manufacturing facilities for the production of a new product. The purchase consideration of approximately RMB 12.2 million was funded by the net IPO proceeds.

23. CHANGES AND ADOPTION OF FINANCIAL REPORTING STANDARDS

For the financial year ended 31 March 2006 the following Singapore Financial Reporting Standards were adopted for the first time:

FRS 1	(revised 2004)	Presentation of Financial Statements
FRS 2	(revised 2004)	Inventories
FRS 8	(revised 2004)	Accounting Policies, Changes in Accounting Estimates and Errors
FRS 10	(revised 2004)	Events after the Balance Sheet Date
FRS 16	(revised 2004)	Property, Plant and Equipment
FRS 17	(revised 2004)	Leases
FRS 21	(revised 2004)	The Effects of Changes in Foreign Exchange Rates
FRS 24	(revised 2004)	Related Party Disclosures
FRS 27	(revised 2004)	Consolidated and Separate Financial Statements
FRS 28	(revised 2004)	Investment in associates (*)
FRS 32	(revised 2004)	Financial Instruments: Disclosure and Presentation
FRS 33	(revised 2004)	Earnings per Share
FRS 36	(revised 2004)	Impairment of Assets
FRS 38	(revised 2004)	Intangible Assets (*)
FRS 39	(revised 2004)	Financial Instruments: Recognition and Measurement
FRS 41	Agriculture (*)	
FRS 102	Share-based Payments (*)	
FRS 103	Business Combinations	
FRS 104	Insurance Contracts (*)	
FRS 105	Non-current assets held for sale and discontinued operations (*)	

(*) Not applicable to the entity

23. CHANGES AND ADOPTION OF FINANCIAL REPORTING STANDARDS (Cont'd)

Adoption of the above new standards has resulted in some changes in detailed application of the accounting policies and some modifications to financial statements presentation (Note 25). However, the new standards did not affect the results for the current or prior years except as disclosed in Note 25.

24. FUTURE CHANGES IN ACCOUNTING STANDARDS

The following Singapore Financial Reporting Standards that have been issued will be effective in future. The transfer to the new standards from the effective dates is not expected to have a material impact on the financial statements.

FRS 40 Investment Property, effective from 1.1.2007 (*)

FRS 106 Exploration for and Evaluation of Mineral Resources, effective from 1.1.2006 (*)

FRS 107 Financial Instruments: Disclosures, effective from 1.1.2007

INT FRS 104	–	Determining whether an Arrangement contains a Lease
INT FRS 105	–	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds (*)
INT FRS 106	–	Liabilities Arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment (*)
INT FRS 107	–	Applying the Restatement Approach under FRS 29 Financial Reporting in Hyperinflationary Economies (*)

Amendments to FRS 1 Presentation of Financial Statements on Capital Disclosures

Amendments to FRS 21 Net Investment in a Foreign Operation

Amendments to FRS 39 Financial Instruments: Recognition and Measurement on hedge accounting provision, fair value option and financial guarantee contracts

Amendments to FRS 101 First-time Adoption of Financial Reporting Standards on comparative disclosures for FRS 106 Exploration for and Evaluation of Mineral Resources (*)

Amendments to FRS 104 Insurance Contracts on financial guarantee contracts (*)

(*) Not applicable to the entity

25. CHANGES IN ACCOUNTING POLICIES, RECLASSIFICATIONS AND COMPARATIVE FIGURES

Effective from 1 April 2005, certain Singapore Financial Reporting Standards were adopted as mentioned in Note 23. Adoption of the standards has resulted in some changes in the detailed application of the accounting policies and some modifications to the financial statements presentation and these changes are summarised below:

Group	After reclassification RMB'000	Before reclassification RMB'000	Change RMB'000
2005 Balance sheet:			
Trade and other receivables	50,119	–	50,119
Trade receivables	–	47,644	(47,644)
Other receivables and prepayments	–	2,475	(2,475)
Trade and other payables	20,383	–	20,383
Trade payables and accrued liabilities	–	18,800	(18,800)
Other payables	–	1,583	(1,583)
2005 Income statement:			
Other income	–	15,404	(15,404)
Financial income	1	–	1
Other credits	15,403	–	15,403

Company	After reclassification RMB'000	Before reclassification RMB'000	Change RMB'000
2005 Balance sheet:			
Trade and other receivables	1,000	–	1,000
Trade receivables	–	–	–
Other receivables and prepayments	–	1,000	(1,000)
Trade and other payables	1,393	–	1,393
Trade payables and accrued liabilities	–	30	(30)
Other payables	–	1,363	(1,363)

Reclassifications have been made to the prior year's financial statements to enhance comparability with current year's financial statements.

In view of the above changes, consequential reclassifications were made to the cash flow statement, including using the net profit figure instead of profit before income tax.

26. COMPARATIVE FIGURES

The financial statements for 2005 cover the financial year from the incorporation date 12 October 2004 to 31 March 2005. The financial statements for 2006 cover the twelve months ended 31 March 2006. Therefore, the comparative amounts for the income statement, statement of changes of equity, cash flow statement and related notes are not entirely comparable.

Statistics of Shareholdings

As at 19 June 2006

Distribution of Shareholdings

Size of Shareholdings	No. of Shareholders	%	No. of Shares	%
1 - 999	0	0.00	0	0.00
1,000 - 10,000	697	56.80	4,456,000	1.90
10,001 - 1,000,000	519	42.30	28,620,000	12.23
1,000,001 and above	11	0.90	200,924,000	85.87
Total :	**1,227**	**100.00**	**234,000,000**	**100.00**

Twenty Largest Shareholders

No.	Name	No. of Shares	%
1	Fortsmith Investments Limited	122,500,000	52.35
2	Fivestar Limited	45,500,000	19.44
3	HL Bank Nominees (S) Pte Ltd	13,074,000	5.59
4	Lombard Inc.	7,000,000	2.99
5	Phillip Securities Pte Ltd	4,059,000	1.73
6	OCBC Securities Private Ltd	2,197,000	0.94
7	Citibank Nominees Singapore Pte Ltd	1,580,000	0.68
8	United Overseas Bank Nominees Pte Ltd	1,455,000	0.62
9	Lim & Tan Securities Pte Ltd	1,258,000	0.54
10	CIMB-GK Securities Pte. Ltd.	1,231,000	0.53
11	DBS Vickers Securities (S) Pte Ltd	1,070,000	0.46
12	UOB Kay Hian Pte Ltd	936,000	0.40
13	Chua Sek How	910,000	0.39
14	Merrill Lynch (S'pore) Pte Ltd	875,000	0.37
15	HSBC (Singapore) Nominees Pte Ltd	742,000	0.32
16	DBS Nominees Pte Ltd	715,000	0.31
17	Edwards John Richard	600,000	0.26
18	Heng Tin Meng	600,000	0.26
19	Ng Boon Guat	570,000	0.24
20	Teo Sway Heong	500,000	0.21
Total :		**207,372,000**	**88.63**

Statistics of Shareholdings

As at 19 June 2006

Substantial shareholders

Substantial shareholders of the Company (as recorded in the Register of Substantial Shareholders) as of 19 June 2006.

No. of Ordinary shares

	Direct Interest	%	Indirect Interest	%
Fortsmith Investments Limited	122,500,000	52.4%	–	–
Fivestar Limited	45,500,000	19.4%	–	–
Sun Bowen [(1)]	–	–	122,500,000	52.4%
Dr. Lim Seck Yeow [(2)]	–	–	45,500,000	19.4%
Tan Geok Bee [(3)]	–	–	45,500,000	19.4%

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) 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.

(3) 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.

Free Float

As at 19 June 2006, approximately 25.1% of the issued ordinary shares of the Company was held in the hands of the public (on the basis of information available to the Company).

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

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN THAT the Annual General Meeting of FABCHEM CHINA LIMITED will be held at 39 Fishery Port Road, Jurong, Singapore 619745 on Thursday, 27 July 2006 at 10.00 a.m. for the following purposes:-

AS ORDINARY BUSINESS

1. To receive and, if approved, to adopt the Audited Accounts of the Company for the financial year ended 31 March 2006 together with the Directors' Report and Auditors' Report thereon. **Resolution 1**

2. To approve the payment of Directors' fees of S$31,000 [Non-Executive Director: S$15,000; and Independent Directors: S$16,000] for the financial year ended 31 March 2006. **Resolution 2**

3. To re-elect Dr Lim Seck Yeow who is retiring under Article 107 of the Articles of Association as a Director of the Company. **Resolution 3**

4. To re-elect Mr Desmond Ong Tai Tiong who is retiring under Article 117 of the Articles of Association as a Director of the Company. **Resolution 4**

5. To appoint Messrs RSM Chio Lim, Certified Public Accountants, as auditors of the Company and to authorise the Directors to fix their remuneration. **Resolution 5**

6. To transact any other ordinary business which may be properly transacted at an Annual General Meeting.

AS SPECIAL BUSINESS

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

7. AUTHORITY TO ALLOT AND ISSUE SHARES

THAT pursuant to Section 161 of the Companies Act, Cap. 50 (the "Act") and Rule 806 of the Listing Manual of the Singapore Exchange Securities Trading Limited, the Directors be empowered to allot and issue shares and convertible securities in the capital of the Company (whether by way of rights, bonus or otherwise) at any time and upon such terms and conditions and for such purposes as the Directors may, in their absolute discretion, deem fit PROVIDED ALWAYS THAT the aggregate number of shares and convertible securities to be issued pursuant to this resolution shall not exceed fifty percent (50%) of the issued share capital of the Company, of which the aggregate number of shares and convertible securities to be issued other than on a pro rata basis to existing shareholders shall not exceed twenty percent (20%) of the issued share capital of the Company and that such authority shall continue in force until the conclusion of the next Annual General Meeting or the expiration of the period within which the next Annual General Meeting of the Company is required by law to be held, whichever is the earlier, unless the authority is previously revoked or varied at a general meeting. For the purposes of this resolution, the percentage of issued share capital shall be based on the Company's issued share capital at the time of the passing of this resolution after adjusting for:-

(a) new shares arising from the conversion or exercise of convertible securities or from exercising employee share options outstanding or subsisting at the time of the passing of this resolution; and

(b) any subsequent consolidation or subdivision of shares. **Resolution 6**

BY ORDER OF THE BOARD

TAN MIN-LI
COMPANY SECRETARY

Date : 12 July 2006

SINGAPORE

Notice of Annual General Meeting

Notes :-

(i) A member entitled to attend and vote at the Meeting is entitled to appoint a proxy to attend and vote in his stead. A member of the Company, which is a corporation, is entitled to appoint its authorised representative or proxy to vote on its behalf.

A proxy need not be a member of the Company.

The instrument appointing a proxy must be deposited at the Company's registered office at 50 Raffles Place #29-00 Singapore Land Tower, Singapore 048623 at least 48 hours before the time of the Meeting.

(ii) If re-elected under Resolution 3, Dr Lim Seck Yeow will remain as a Non-executive Chairman of the Company and member of the Audit Committee, of the Remuneration Committee and of the Nominating Committee.

(iii) If re-elected under Resolution 4, Mr Desmond Ong Tai Tiong will remain as an Independent Director of the Company, Chairman of the Remuneration Committee and of the Nominating Committee and a member of the Audit Committee.

(iv) Resolution 6, if passed, will empower the Directors of the Company to issue shares and convertible securities in the Company up to a maximum of fifty percent (50%) of the issued share capital of the Company (of which the aggregate number of shares and convertible securities to be issued other than on a pro rata basis to existing shareholders shall not exceed twenty percent (20%) of the issued share capital of the Company) for such purposes as they consider would be in the interests of the Company. This authority will continue in force until the next Annual General Meeting of the Company or the expiration of the period within which the next Annual General Meeting is required by law to be held, whichever is the earlier, unless the authority is previously revoked or varied at a general meeting.

Proxy Form

FABCHEM CHINA LIMITED

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

IMPORTANT:

1. For investors who have used their CPF monies to buy the Company's ordinary shares, this Annual Report 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 Annual General Meeting as OBSERVERS have to submit their requests through their respective Agent banks so that their Agent Banks may register with the Company Secretary of Fabchem China Limited.

I/We ____

of ____

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

Name	Address	NRIC/ Passport No.	Proportion of Shareholdings (%)

and/or (delete as appropriate)

as my/our proxy/proxies to attend and to vote for me/us on my/our behalf at the Annual General Meeting of the Company to be held at 39 Fishery Port Road, Jurong, Singapore 619745 on Thursday, 27 July 2006 at 10.00 am and at any adjournment thereof. I/We direct my/our proxy to vote for or against the Resolutions to be proposed at the Meeting as hereunder indicated.

No.	Ordinary Resolutions	For	Against
	Ordinary Business		
1.	To adopt the Audited Accounts, Directors' Report and Auditors' Report		
2.	To approve the payment of Directors' Fees		
3.	To re-elect Dr Lim Seck Yeow as a Director who is retiring under Article 107		
4.	To re-elect Mr Desmond Ong Tai Tiong as a Director who is retiring under Article 117		
5.	To re-appoint Auditors and authorise Directors to fix their remuneration		
	Special Business		
6.	To authorize Directors to allot shares pursuant to Section 161 of the Companies Act, Cap. 50 and Rule 806 of the Listing Manual of the Singapore Exchange Securities Trading Limited		

Dated this ____________ day of ____________ 2006.

No. of Shares Held

____

Signature(s) of member(s) or Common Seal

IMPORTANT: PLEASE READ NOTES OVERLEAF

Proxy Form

FABCHEM CHINA LIMITED
Notes to the Proxy Form

1. Please insert the total number of shares held by you. If you have shares entered against your name in the Depository Register (as defined in Section 130A of the Companies Act, Chapter 50), you should insert that number of shares. If you have shares registered in your name in the Register of Members, you should insert that number of shares. If you have shares entered against your name in the Depository Register and shares registered in your name in the Register of Members, you should insert the aggregate number of shares entered against your name in the Depository Register and registered in your name in the Register of Members. If no number is inserted, the instrument appointing a proxy or proxies shall be deemed to relate to all the shares held by you.

2. A member entitled to attend and vote at a meeting of the Company is entitled to appoint not more than two proxies to attend and vote in his stead.

3. Where a member appoints two proxies, he shall specify the percentage of his shares to be represented by each proxy and if no percentage is specified, the first named proxy shall be deemed to represent 100 per cent of his shareholding and the second named proxy shall be deemed to be an alternate to the first named.

4. A proxy need not be a member of the Company.

5. The instrument appointing a proxy or proxies together with the letter of power of attorney, if any, under which it is signed or a duly certified copy thereof, must be deposited at the registered office of the Company at 50 Raffles Place #29-00 Singapore Land Tower, Singapore 048623 at least 48 hours before the time appointed for the Annual General Meeting.

6. A corporation which is a member may authorise by resolution of its directors or other governing body such a person as it thinks fit to act as its representative at the Annual General Meeting, in accordance with Section 179 of the Companies Act, Chapter 50.

7. Please indicate with an "X" in the spaces provided whether you wish your vote(s) to be for or against the Resolutions as set out in the Notice of Annual General Meeting. In the absence of specific directions, the proxy/proxies will vote or abstain as he/they may think fit, as he/they will on any other matter arising at the Annual General Meeting.

8. The Company shall be entitled to reject the instrument appointing a proxy or proxies if it is incomplete, improperly completed or illegible or where the true intentions of the appointor are not ascertainable from the instructions of the appointor specified in the instrument appointing a proxy or proxies.

9. In the case of a member whose shares are entered against his name in the Depository Register, the Company may reject any instrument appointing a proxy or proxies lodged if the member, being the appointor, is not shown to have shares entered against his name in the Depository Register as at 48 hours before the time appointed for holding the Annual General Meeting, as certified by The Central Depository (Pte) Limited to the Company.

FABCHEM CHINA LIMITED

39 Fishery Port Road, Jurong

Singapore 619745

Tel: (65) 6265 5918

Fax: (65) 6268 2447

www.fabchemchina.com