

CIRCULAR DATED 24 OCTOBER 2011

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

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

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

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



FABCHEM CHINA LIMITED

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

CIRCULAR TO SHAREHOLDERS

IN RELATION TO

THE PROPOSED SHAREHOLDERS’ MANDATE FOR INTERESTED PERSON TRANSACTIONS

Independent Financial Adviser to the Independent Directors of the Company



PROVENANCECAPITAL

PROVENANCE CAPITAL PTE. LTD.

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

IMPORTANT DATES AND TIMES

Last date and time for lodgement of Proxy Form : 8 November 2011 at 10.30 a.m.

Date and time of Extraordinary General Meeting : 10 November 2011 at 10.30 a.m.

Place of Extraordinary General Meeting : 39 Fishery Port Road, Jurong, Singapore 619745

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DEFINITIONS

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

Companies, Organisations and Agencies

“CDP”	:	The Central Depository (Pte) Limited
“Dyno Nobel Group”	:	DNAP, DNX Australia and their respective Associates (and also the latter’s Associates for purposes of the IPT Mandate)
“DNAP”	:	Dyno Nobel Asia Pacific Pty Ltd., which owns 100% of DNX Australia Pty Limited
“DNX Australia”	:	DNX Australia Pty Limited, which owns 29.9% Shares of the Company, is a wholly-owned subsidiary of DNAP
“Fabchem” or the “Company”	:	Fabchem China Limited
“Group”	:	Fabchem and its subsidiaries as at the Latest Practicable Date, namely Shandong Yinguang Technology Co., Ltd. and Hebei Yinguang Chemical Co., Ltd.
“Hebei Yinguang”	:	Hebei Yinguang Chemical Co., Ltd., a wholly-owned subsidiary of Yinguang Technology
“Provenance Capital”	:	Provenance Capital Pte. Ltd., the independent financial adviser to the Independent Directors in relation to the IPT Mandate
“SGX-ST”	:	Singapore Exchange Securities Trading Limited
“Yinguang Technology”	:	Shandong Yinguang Technology Co., Ltd., a wholly-owned subsidiary of the Company

General

“Associate”	:	This term shall have the same meaning as ascribed to it in the SGX-ST Listing Manual, as amended from time to time
“AGM”	:	The annual general meeting of the Company
“Audit Committee”	:	The audit committee of the Company, consisting of Wee Phui Gam, Ong Tai Tiong Desmond and Dr. Lim Seck Yeow
“Board”	:	The board of Directors of the Company as at the date of this Circular
“Circular”	:	This Circular to Shareholders dated 24 October 2011
“Companies Act”	:	The Companies Act, Chapter 50 of Singapore
“Directors”	:	The directors of the Company as at the date of this Circular
“EGM”	:	The extraordinary general meeting of the Shareholders to be convened for the purposes of considering and, if thought fit, passing the resolution set out in the Notice of EGM set out on page 25 of this Circular

“FY”	:	Financial year of the Company ended or ending 31 March
“IFA Letter”	:	Provenance Capital’s letter to the Independent Directors, as set out in the Appendix of this Circular
“Independent Directors”	:	The Directors of the Company who are deemed to be independent in respect of and for the purpose of the proposed IPT Mandate, namely, Dr Lim Seck Yeow, Sun Bowen, Bao Hongwei, Ong Tai Tiong Desmond, Jiang Rongguang and Wee Phui Gam
“Interested Person(s)”	:	The interested person(s) of the Company who fall within the IPT Mandate, as set out in Section 2.6 of this Circular, namely each of the entities within the Dyno Nobel Group
“Interested Person Transactions”	:	The categories of transactions with the Interested Person(s) which fall within the IPT Mandate, as set out in Section 2.7 of this Circular, namely the Product Sales
“IPT Mandate”	:	The proposed Shareholders’ general mandate to be obtained by the Company at the EGM pursuant to Chapter 9 of the Listing Manual, details of which are set out in Section 2 of this Circular permitting the Group to enter into Interested Person Transactions, provided that such transactions are on an arm’s length basis, on normal commercial terms and will not be prejudicial to the interests of the Company and its minority Shareholders
“Latest Practicable Date”	:	17 October 2011, being the latest practicable date prior to the printing of this Circular
“Listing Manual”	:	The listing manual of the SGX-ST as amended from time to time
“Notice of EGM”	:	The notice of the EGM as set out on page 25 of this Circular
“NTA”	:	Net tangible assets
“Ordinary Resolution”	:	The ordinary resolution as set out in the Notice of EGM
“Products”	:	Has the meaning ascribed to it in Section 2.1 of this Circular
“Product Sales”	:	Has the meaning ascribed to it in Section 2.1 of this Circular
“Securities Accounts”	:	Securities accounts maintained by a Depositor with CDP but does not include securities sub-accounts
“Shareholders”	:	Registered holders of Shares, except that where the registered holder is the CDP, the term “Shareholders” shall, in relation to such Shares, mean the persons whose direct Securities Accounts maintained with the CDP are credited with the Shares
“Shares”	:	Ordinary shares in the share capital of the Company

Currencies, Units of Measurements and Others

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

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

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

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

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

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

LETTER TO SHAREHOLDERS

FABCHEM CHINA LIMITED

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

Board of Directors:

Dr Lim Seck Yeow
Sun Bowen
Bao Hongwei
Peter Neville Hogan
Christopher Michael Furnell
Ong Tai Tiong Desmond
Jiang Rongguang
Wee Phui Gam

Registered Office:

8 Cross Street
#11-00 PWC Building
Singapore 048424

Date: 24 October 2011

To: The Shareholders of Fabchem China Limited

Dear Sir/Madam

THE PROPOSED SHAREHOLDERS' MANDATE FOR INTERESTED PERSON TRANSACTIONS

1 INTRODUCTION

- 1.1 The Directors are convening the EGM to seek Shareholders' approval for the adoption of the proposed IPT Mandate in respect of future transactions that the Group may enter into with the Dyno Nobel Group, as detailed in Section 2 below.
- 1.2 The purpose of this Circular is to explain the reasons for, and to provide Shareholders with information relating to, the proposal to be tabled at the EGM.

2 THE PROPOSED IPT MANDATE

2.1 Introduction

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

From time to time, there are transactions between the Group and the Dyno Nobel Group. Such transactions currently comprise the sales of boosters in the ordinary course of business of Yinguang Technology to DNAP and DNX Australia. Such transactions may in future also include other Products of the Company (collectively, "**Product Sales**").

DNAP is deemed to have a 29.9% equity interest in the Company by virtue of its 100% shareholding in DNX Australia, which holds 69,966,000 Shares in the Company representing 29.9% of the Company's issued share capital as at the Latest Practicable Date. Due to the aforesaid interests in the Company, each of DNAP and DNX Australia is deemed to be an interested person for the purposes of Chapter 9 of the Listing Manual.

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

2.2 Chapter 9 of the Listing Manual

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

In particular, an immediate announcement is required where:

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

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

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

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

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

2.3 Definitions under Chapter 9

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

- (a) the term "approved exchange" means a stock exchange that has rules which safeguard the interests of shareholders against interested person transactions according to similar principles to Chapter 9;
- (b) the term "entity at risk" means:
 - (i) the listed company;
 - (ii) a subsidiary of the listed company that is not listed on the SGX-ST or an approved exchange; or

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

2.4 Rationale for the IPT Mandate

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

The nature and scope of transactions which are proposed to be covered under the proposed IPT Mandate are detailed in Section 2.7 below.

2.5 Benefit to Shareholders

The IPT Mandate will eliminate the need for the Company to announce, or to announce and convene separate general meetings on each occasion to seek Shareholders’ prior approval for the entry by the relevant entity in the Group into such Interested Person Transactions (as described in Section 2.7 below). This will substantially reduce the expenses associated with the convening of general meetings (including the engagement of external advisers and preparation of documents) on an *ad hoc* basis, improve administrative efficiency and efficacy considerably, and allow manpower resources and time to be channelled towards attaining other business objectives available to the Company.

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

2.6 Class of Interested Persons

The IPT Mandate will apply to Interested Person Transactions which are carried out between the Group and the Dyno Nobel Group.

The Dyno Nobel Group is a leading supplier of industrial explosives and blasting services to the mining, quarrying, seismic and construction industries. The Dyno Nobel Group is one of the market leaders in North America (the largest explosives market in the world) and one of the largest suppliers in Australia (the third largest explosives market in the world) (source: <http://www.dynonobel.com>).

DNAP is deemed to have a 29.9% equity interest in the Company by virtue of its 100% shareholding in DNX Australia, which holds 69,966,000 Shares in the Company representing 29.9% of the Company's issued share capital as at the Latest Practicable Date. DNX Australia has been a controlling shareholder of the Company since 1 February 2007.

The Dyno Nobel Group started purchasing Products from the Group in FY2011. The Dyno Nobel Group had intended to purchase Products from the Group earlier but was precluded from doing so due to the exclusive distributorship agreement signed in 2005 between Yinguang Technology and one of the latter's customers, Beston Australia Pty. Ltd.. The exclusive distributorship agreement expired on 31 December 2009. In FY2011, total purchases of Products by the Dyno Nobel Group from the Group amounted to approximately RMB 4.2 million (representing approximately 1.0% of the Group's total revenue for FY2011 and approximately 1.1% of the latest audited NTA of the Group for FY2011) and such purchases have increased to approximately RMB 13.3 million in the current FY2012 (from 1 April 2011 to the Latest Practicable Date). The value of such purchases from 1 April 2011 to 30 June 2011 was approximately RMB 12.4 million representing approximately 9.0% of the Group's total revenue in the same quarter and approximately 3.3% of the latest audited NTA of the Group for FY2011. The IPT Mandate is therefore being proposed in anticipation of further Product Sales to the Dyno Nobel Group.

Both Mr Peter Neville Hogan and Mr Christopher Michael Furnell, who are non-executive Directors of the Company, are nominee directors of DNX Australia. They are therefore deemed interested in the proposed adoption of the IPT Mandate.

2.7 Nature and Scope of the IPT Mandate

The Interested Person Transactions which will be covered by the IPT Mandate are the sales of Products by the Group to the Interested Persons in the normal course of business of the Group. These Interested Person Transactions are recurrent transactions of revenue or trading nature or those which are necessary for the Group's day-to-day operations.

Currently, Yinguang Technology supplies boosters in its ordinary course of business to DNAP and DNX Australia. For the purposes of the IPT Mandate, the Interested Person Transactions shall comprise all Product Sales between the Group and the Dyno Nobel Group in the ordinary course of business of the Group.

For the avoidance of doubt, there will be no sale or purchase of any assets, undertakings or businesses within the scope of the IPT Mandate. The IPT Mandate will also not cover any transaction by any member of the Group with an Interested Person that is below S\$100,000 in value as the threshold and aggregation requirements of Chapter 9 of the Listing Manual would not apply to such transactions. In addition, transactions with other interested persons (other than the class of Interested Persons detailed at Section 2.6 above) that do not fall within the ambit of the IPT Mandate will be subject to the relevant provisions of Chapter 9 of the Listing Manual and/or other applicable provisions of the Listing Manual.

2.8 Guidelines and Review Procedures for Interested Person Transactions

(a) Review Procedures

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

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

(b) Additional Review Procedures

- i. Chapter 9 of the Listing Manual does not require transactions below S\$100,000 in value to be included under the IPT Mandate. However, our Audit Committee will review, on a yearly basis, all Product Sales that have a value below S\$100,000.
- ii. A threshold limit of RMB 15 million for each Interested Person Transaction (the “**Threshold Limit**”) will be applied. The Threshold Limit has been set and is regarded as reasonable by the Independent Directors of the Company (deemed independent for the purpose of the IPT Mandate) based on (i) the anticipated value of potential Product Sales that the Group may enter into with the Interested Persons going forward⁽¹⁾ and (ii) the review procedures set out above in Section 2.8(a) and including the various approval limits to be implemented for such Product Sales as set out below in this Section 2.8(b).

- iii. Where a Product Sale exceeds the Threshold Limit, such transaction must be reviewed and approved by the Audit Committee of the Company prior to the Group entering into such a transaction.
- iv. Where a Product Sale transaction does not exceed the Threshold Limit, such transaction does not require the Audit Committee's prior approval. However, these transactions with a value equivalent to or greater than S\$100,000 will be reviewed on at least a half-yearly basis by the Audit Committee to ensure that they are conducted on normal commercial terms and in accordance with the review procedures outlined above. All relevant non-quantitative factors such as (but not limited to) the nature of the products and prevailing market conditions will also be taken into consideration.

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

Approval Limits	Relevant Approving Authority
Transactions of or above S\$100,000 but not exceeding RMB 10 million ⁽¹⁾	1 Director and the head of finance (China operations)
Transactions above RMB 10 million but not exceeding the Threshold Limit	2 Directors and the head of finance (China operations)
Transactions above the Threshold Limit	Audit Committee

Note:-

- (1) As at the Latest Practicable Date, the value of the single largest Product Sale is approximately RMB 7 million and the value of future Product Sales may increase.

(c) Register of Interested Person Transactions

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

(d) Periodic Review

- i. Our Audit Committee will carry out reviews of all Product Sales of a value equivalent to or greater than S\$100,000 on at least a half-yearly basis, and Product Sales of a value below S\$100,000 on a yearly basis to (i) ensure that the established guidelines and review procedures for the Product Sales have been complied with and the relevant approvals have been obtained; and (ii) determine if such guidelines and review procedures are adequate and/or commercially practicable in ensuring that the Product Sales are conducted on normal commercial terms, are in the interest of our Company and are not prejudicial to the interests of our Company and our minority Shareholders.
- ii. If, during these reviews, our Audit Committee is of the view that the above guidelines and review procedures have become inappropriate or have become insufficient to ensure that the Product Sales will be conducted on normal commercial terms, are in the interest of our Company and are not prejudicial to the interests of our Company and our minority Shareholders, our Company will seek a fresh mandate from our Shareholders based on new guidelines and review procedures for transactions with the Interested Persons. During the period prior to obtaining a fresh mandate from Shareholders, all Product Sales will be subject to prior review and approval by our Audit Committee.

(e) **Interested Audit Committee Member to Abstain**

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

(f) **Further Compliance**

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

2.9 Validity Period of the IPT Mandate

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

2.10 Disclosure in the Annual Report

The Company will announce the aggregate value of transactions conducted with the Interested Persons pursuant to the IPT Mandate for the relevant financial periods which the Company is required to report on pursuant to the Listing Manual and within the time required for the announcement of such reports.

Disclosure will also be made in the Company's annual report of the aggregate value of transactions conducted with the Interested Persons pursuant to the IPT Mandate during the financial year, and in the annual reports for subsequent financial years that the IPT Mandate continues in force, in accordance with the requirements of Chapter 9 of the Listing Manual.

The name of the Interested Person and the corresponding aggregate value of the Interested Person Transactions will be presented in the following format:

Name of Interested Person	Aggregate value of all interested person transactions during the financial year under review (excluding transactions less than \$100,000 and transactions conducted under Shareholders' mandate pursuant to Rule 920 of the Listing Manual)	Aggregate value of all interested person transactions conducted under Shareholders' mandate pursuant to Rule 920 of the Listing Manual (excluding transactions less than \$100,000)
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3 DIRECTORS' AND SUBSTANTIAL SHAREHOLDERS' INTERESTS

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

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

Notes: -

- (1) Mr Sun Bowen is deemed to be interested in the shares held by Fortsmith Investments Limited by virtue of Section 7 of the Companies Act.
- (2) Mr Bao Hongwei is deemed to be interested in the shares held by Lombard Inc. by virtue of Section 7 of the Companies Act.
- (3) Dr Lim Seck Yeow is deemed to be interested in the shares held by Fivestar Limited by virtue of Section 7 of the Companies Act.
- (4) Mr Peter Neville Hogan is a nominee director of DNX Australia.
- (5) Mr Christopher Michael Furnell is a nominee director of DNX Australia.
- (6) Mdm Tan Geok Bee is deemed to be interested in the shares held by Fivestar Limited by virtue of Section 7 of the Companies Act.

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

4 INDEPENDENT FINANCIAL ADVISER'S OPINION

Provenance Capital has been appointed as the independent financial adviser to the Independent Directors to opine on whether the guidelines and review procedures for determining the transaction prices of the Interested Person Transactions covered under the IPT Mandate as set out in Section 2.8 of this Circular are sufficient to ensure that the Interested Person Transactions will be carried out on normal commercial terms and will not be prejudicial to the interests of the Company and its minority Shareholders.

Having regard to the considerations set out in the IFA Letter and the information available to Provenance Capital as at the Latest Practicable Date, Provenance Capital is of the opinion that the guidelines and review procedures for determining the transaction prices of the Interested Person Transactions covered under the IPT Mandate as set out in Section 2.8 of this Circular, if adhered to, are sufficient to ensure that the Interested Person Transactions will be carried out on normal commercial terms and will not be prejudicial to the interests of the Company and its minority Shareholders.

The IFA Letter dated 24 October 2011 is reproduced and appended in the Appendix to this Circular. Shareholders are advised to read the IFA Letter in full and consider it in the context of this Circular.

5 STATEMENT FROM THE AUDIT COMMITTEE

The Audit Committee has reviewed the guidelines and review procedures, as set out in Section 2.8 of this Circular, proposed by the Company for determining the terms of the Interested Person Transactions, and having also considered, *inter alia*, the terms, the rationale and the benefits of the proposed IPT Mandate as set out in Section 2 of this Circular, the Audit Committee is satisfied that the guidelines and review procedures for the Interested Person Transactions, as well as the half-yearly reviews to be made by the Audit Committee in relation thereto, are sufficient to ensure that the recurrent Interested Person Transactions will be carried out on normal commercial terms and will not be prejudicial to the interests of the Company and its minority Shareholders.

The Audit Committee has not taken a different view from the independent financial adviser's opinion as set out in Section 4 above and the IFA Letter.

6 INDEPENDENT DIRECTORS' RECOMMENDATION

As both Mr Peter Neville Hogan and Mr Christopher Michael Furnell are nominee directors of DNX Australia, each of them will abstain from making any recommendations to the Shareholders on the resolution relating to the proposed IPT Mandate. Accordingly, the Independent Directors (who are deemed to be independent for the purposes of making a recommendation to the Shareholders in respect of the proposed IPT Mandate) are Dr Lim Seck Yeow, Sun Bowen, Bao Hongwei, Ong Tai Tiong Desmond, Jiang Rongguang, and Wee Phui Gam. Save as disclosed herein, none of the Directors has any interest, direct or indirect, in the proposed IPT Mandate.

Having fully considered the rationale for the proposed IPT Mandate as set out in Section 2.4 of this Circular and the advice of Provenance Capital in the IFA Letter, the Independent Directors are unanimously of the opinion that the IPT Mandate is in the best interests of the Company. The Independent Directors unanimously agree that the guidelines and review procedures for determining the terms of the Interested Person Transactions as stated in Section 2.8 of this Circular for Interested Person Transactions entered into pursuant to the IPT Mandate, as well as the half-yearly reviews to be made by the Audit Committee in relation thereto, are sufficient to ensure that Interested Person Transactions with the Dyno Nobel Group will be carried out on normal commercial terms and will not be prejudicial to the interests of the Company and its minority Shareholders.

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

7 ABSTENTIONS FROM VOTING

In accordance with Rule 920(1)(b)(viii) of the Listing Manual, DNAP and DNX Australia, being the Interested Persons, will abstain, and have undertaken to ensure that their associates will abstain, from voting on the resolution approving the proposed IPT Mandate herein.

Further, DNAP and DNX Australia undertake to decline, and shall ensure that their associates shall decline, to accept appointment as proxies to vote at and attend the forthcoming EGM in respect of the resolution relating to the proposed IPT Mandate for other Shareholders unless the Shareholder concerned has given specific instructions as to the manner in which his votes are to be cast at the EGM. In addition, Mr Peter Neville Hogan and Mr Christopher Michael Furnell also have undertaken to decline to accept appointment as proxies.

8 THE EGM

The EGM, notice of which is set out on page 25 of this Circular, will be held on 10 November 2011 at 10.30 a.m. at 39 Fishery Port Road, Jurong, Singapore 619745 for the purpose of considering and, if thought fit, passing with or without any modifications, the resolution as set out in the Notice of EGM.

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

9 DIRECTORS' RESPONSIBILITY STATEMENTS

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

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

10 ACTION TO BE TAKEN BY SHAREHOLDERS

If a Shareholder is unable to attend the EGM and wishes to appoint a proxy or proxies to attend and vote on his behalf, he should complete, sign and return the accompanying Proxy Form in accordance with the instructions printed thereon as soon as possible and, in any event, so as to reach the registered office of the Company at 8 Cross Street #11-00 PWC Building Singapore 048424 (or 80 Robinson Road, #02-00, Singapore 068898 after 31 October 2011 due to relocation of office premises), not less than 48 hours before the time appointed for holding the EGM. The completion and return of the Proxy Form by a Shareholder will not prevent him from attending and voting in person at the EGM if he subsequently wishes to do so.

11 CONSENTS

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

12 DOCUMENTS AVAILABLE FOR INSPECTION

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

- (a) the Memorandum and Articles of Association of the Company;
- (b) the Annual Report of Fabchem for FY2011;
- (c) the IFA Letter; and
- (d) the letter of consent from Provenance Capital.

Yours faithfully

For and on behalf of the Board
Fabchem China Limited

Dr Lim Seck Yeow
Non-Executive Chairman

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

PROVENANCE CAPITAL PTE. LTD.

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

24 October 2011

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

Dr. Lim Seck Yeow (Non-executive Chairman)
Mr Sun Bowen (Managing Director)
Mr Bao Hongwei (Executive Director)
Mr Ong Tai Tiong Desmond (Independent Director)
Mr Wee Phui Gam (Independent Director)
Mr Jiang Rongguang (Independent Director)

Dear Sirs

THE PROPOSED SHAREHOLDERS' MANDATE FOR INTERESTED PERSON TRANSACTIONS

Unless otherwise defined or the context otherwise requires, all terms used herein shall have the same meanings as defined in the circular to shareholders of the Company dated 24 October 2011 (the "Circular").

1. INTRODUCTION

The directors of Fabchem China Limited (the "**Company**") are convening an extraordinary general meeting ("**EGM**") to seek the approval of the independent shareholders of the Company (the "**Independent Shareholders**") for the adoption of a Shareholders' general mandate (the "**IPT Mandate**") in respect of future transactions that the Company and its subsidiaries (the "**Group**") may enter into with Dyno Nobel Asia Pacific Pty Ltd. ("**DNAP**") and DNX Australia Pty Limited ("**DNX Australia**") (each an "**Interested Person**", and together with their respective associates, the "**Dyno Nobel Group**" or "**Interested Persons**"). This letter has been prepared for the use of the independent directors of the Company and is to be incorporated into the Circular which provides, *inter alia*, details of the IPT Mandate to be obtained by the Company at the EGM to be convened and the recommendation of the independent directors of the Company thereon.

Provenance Capital Pte. Ltd. ("**Provenance Capital**") has, in accordance with Chapter 9 of the SGX-ST Listing Manual (the "**Listing Manual**"), been appointed as the independent financial adviser to the independent directors of the Company to provide an opinion on whether the guidelines and review procedures for determining the transaction prices of the transactions that are covered under the IPT Mandate (the "**Interested Person Transactions**") as set out in the Circular are sufficient to ensure that the Interested Person Transactions will be carried out on normal commercial terms and will not be prejudicial to the interests of the Company and its minority Shareholders. Save for Mr Peter Neville Hogan and Mr Christopher Michael Furnell who are nominee directors of DNX Australia and are therefore deemed interested in the proposed adoption of the IPT Mandate, the rest of the directors of the Company (the "**Directors**") are deemed to be independent directors for the purpose of the IPT Mandate (the "**Independent Directors**").

This letter (“**Letter**”) sets out, *inter alia*, our evaluation of the review procedures of the Interested Person Transactions and our advice to the Independent Directors in relation to their recommendation to the minority Shareholders on the adoption of the IPT Mandate, and forms part of the Circular providing, *inter alia*, details of the IPT Mandate, and the recommendation of the Independent Directors thereof.

2. TERMS OF REFERENCE

Provenance Capital has been appointed as the independent financial adviser to the Independent Directors in respect of the adoption of the IPT Mandate and to provide an opinion on whether the guidelines and review procedures for determining the transaction prices of the Interested Person Transactions covered under the IPT Mandate are sufficient to ensure that the Interested Person Transactions will be carried out on normal commercial terms and will not be prejudicial to the interests of the Company and its minority Shareholders.

The scope of our appointment does not require us to express, and we do not express, any view on the future growth prospects, financial position and earnings potential of the Group. Such evaluation or comments remain the responsibility of the Directors although we may draw upon their views or make such comments in respect thereof (to the extent deemed necessary or appropriate by us) in arriving at our opinion. The opinion set forth herein is based solely on publicly available information as well as information provided by the Directors, and is predicated upon the economic and market conditions prevailing as at 17 October 2011 (the “**Latest Practicable Date**”). Accordingly, this Letter does not take into account any events or conditions occurring after this date.

We are not required to conduct and have not conducted any review of the historical or current interested person transactions carried out by the Group. Accordingly, we do not express any opinion on whether such interested person transactions were or are in compliance with the review procedures set out under the IPT Mandate. The implementation of such review procedures is the responsibility of the Directors.

In formulating our opinion, we have relied to a considerable extent on the information set out in the Circular and the information, representations, opinions, facts and statements provided to us, whether written or verbal, by the Company and/or the management of the Company (the “**Management**”) and its professional advisers. We have also relied upon the responsibility statement of the Directors (including those who may have delegated detailed supervision of the preparation of the Circular) as set out in Section 9 of the Circular that they collectively and individually accept full responsibility for the accuracy of the information given in the Circular and they confirm after making all reasonable enquiries that, to the best of their knowledge and belief, the Circular constitutes full and true disclosure of all material facts about the IPT Mandate, the Company and its subsidiaries, and the Directors are not aware of any facts the omission of which would make any statement in the Circular misleading.

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

Our view as set out in this Letter is based upon market, economic, industry, monetary and other conditions (if applicable) prevailing as at the Latest Practicable Date and may change significantly over a relatively short period of time. We assume no responsibility to update, revise or reaffirm our opinion or assumptions in light of any subsequent development after the Latest Practicable Date that may affect our opinion or assumptions contained herein.

In rendering our advice, we did not have regard to the specific investment objectives, financial situation, tax position, risk profiles or unique needs and constraints of any Independent Shareholder or any specific group of the Independent Shareholders. As each Independent Shareholder would have different investment objectives and profiles, we recommend that any individual Independent Shareholder or group of the Independent Shareholders who may require specific advice in relation to his or their investment portfolio(s) or objective(s) consult his or their stockbroker, bank manager, solicitor, accountant, tax adviser or other professional adviser immediately.

The Company has been separately advised by its own professional advisers in the preparation of the Circular (other than this Letter). We have had no role or involvement and have not and will not provide any advice (financial or otherwise) in the preparation, review and verification of the Circular (other than this Letter). Accordingly, we take no responsibility for and express no views, whether express or implied, on the contents of the Circular (other than this Letter).

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

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

Our opinion in relation to the adoption of the IPT Mandate, as set out in Section 4 of the Circular, should be considered in the context of the entirety of this Letter and the Circular.

3. THE PROPOSED ADOPTION OF THE IPT MANDATE

3.1 Background

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

From time to time, there are transactions between the Group and the Dyno Nobel Group. Such transactions currently comprise the sales of boosters in the ordinary course of business of Yinguang Technology to DNAP and DNX Australia. We note that such transactions may in future also include other Products of the Company (collectively, "**Product Sales**").

3.2 Class of Interested Persons

The IPT Mandate will apply to Interested Person Transactions which are carried out between the Group and the Dyno Nobel Group.

As set out in Section 2.6 of the Circular, the Dyno Nobel Group is a leading supplier of industrial explosives and blasting services to the mining, quarrying, seismic and construction industries. The Dyno Nobel Group is one of the market leaders in North America (the largest explosives market in the world) and one of the largest suppliers in Australia (the third largest explosives market in the world) (source: <http://www.dynonobel.com>).

DNAP is deemed to have a 29.9% equity interest in the Company by virtue of its 100% shareholding in DNX Australia, which holds 69,966,000 Shares in the Company representing 29.9% of the Company's issued share capital as at the Latest Practicable Date. DNX Australia has been a controlling shareholder of the Company since 1 February 2007. Due to the aforesaid interests in the Company, each of DNAP and DNX Australia is deemed to be an interested person for the purposes of Chapter 9 of the Listing Manual.

The Dyno Nobel Group started purchasing Products from the Group in FY2011. The Dyno Nobel Group had intended to purchase Products from the Group earlier but was precluded from doing so due to the exclusive distributorship agreement signed in 2005 between Yinguang Technology and one of the latter's customers, Beston Australia Pty. Ltd.. The exclusive distributorship agreement expired on 31 December 2009.

In FY2011, total purchases of Products by the Dyno Nobel Group from the Group amounted to approximately RMB 4.2 million (representing approximately 1.0% of the Group's total revenue for FY2011 and approximately 1.1% of the latest audited net tangible assets ("NTA") of the Group for FY2011) and such purchases have increased to approximately RMB 13.3 million in the current FY2012 (from 1 April 2011 to the Latest Practicable Date). The value of such purchases from 1 April 2011 to 30 June 2011 was approximately RMB 12.4 million representing approximately 9.0% of the Group's total revenue in the same quarter and approximately 3.3% of the latest audited NTA of the Group for FY2011. The IPT Mandate is therefore being proposed in anticipation of further Product Sales to the Dyno Nobel Group.

Both Mr Peter Neville Hogan and Mr Christopher Michael Furnell, who are non-executive directors of the Company, are nominee directors of DNX Australia. They are therefore deemed interested in the proposed adoption of the IPT Mandate.

3.3 Nature and Scope of the IPT Mandate

The Interested Person Transactions which will be covered by the IPT Mandate are the sales of Products by the Group to the Interested Persons in the normal course of business of the Group. These Interested Person Transactions are recurrent transactions of revenue or trading nature or those which are necessary for the Group's day-to-day operations.

Currently, Yinguang Technology supplies boosters in its ordinary course of business to DNAP and DNX Australia. For the purposes of the IPT Mandate, the Interested Person Transactions shall comprise all Product Sales between the Group and the Dyno Nobel Group in the ordinary course of business of the Group.

We note that there will be no sale or purchase of any assets, undertakings or businesses within the scope of the IPT Mandate. The IPT Mandate will also not cover any transaction by any member of the Group with an Interested Person that is below S\$100,000 in value as the threshold and aggregation requirements of Chapter 9 of the Listing Manual would not apply to such transactions. In addition, transactions with other interested persons (other than the class of interested persons detailed in Section 2.6 of the Circular) that do not fall within the ambit of the IPT Mandate will be subject to the relevant provisions of Chapter 9 of the Listing Manual and/or other applicable provisions of the Listing Manual.

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

4.1 Rationale for and Benefits of the IPT Mandate

It is not within our terms of reference to comment or express an opinion on the merits of the Interested Person Transactions or the future prospects of the Group after the adoption of the IPT Mandate. Nevertheless, we have reviewed the rationale for and benefits of adopting the IPT Mandate as set out in Sections 2.4 and 2.5 of the Circular, and reproduced in italics below for your reference.

"2.4 Rationale for the IPT Mandate

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

The nature and scope of transactions which are proposed to be covered under the proposed IPT Mandate are detailed in Section 2.7 below.

2.5 Benefit to Shareholders

The IPT Mandate will eliminate the need for the Company to announce, or to announce and convene separate general meetings on each occasion to seek Shareholders' prior approval for the entry by the relevant entity in the Group into such Interested Person Transactions (as defined in Section 2.7 below). This will substantially reduce the expenses associated with the convening of general meetings (including the engagement of external advisers and preparation of documents) on an ad hoc basis, improve administrative efficiency and efficacy considerably, and allow manpower resources and time to be channelled towards attaining other business objectives available to the Company.

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

4.2 Guidelines and Review Procedures for Interested Person Transactions

The full text of the review procedures for Interested Person Transactions can be found in Section 2.8 of the Circular.

4.2.1 Review Procedures

We note that the Group will be implementing the following review procedures to ensure that the Interested Person Transactions will be carried out on normal commercial terms, will be in the interests of the Company and will not be prejudicial to the interests of the Company and the minority shareholders:

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

product, delivery schedules, order quantity, foreign exchange rates, customer requirements and specifications, duration of contract, preferential rates, discounts or rebates for bulk purchases, and cost for freight will be taken into account. The Group will not proceed with any transaction with an Interested Person if it results in a gross loss (i.e. after deducting cost of sales) to the Group at the point of transaction.

4.2.2 Additional Review Procedures

In addition, we note that the Group will be implementing the following additional review procedures for the Interested Person Transactions:

- i. Chapter 9 of the Listing Manual does not require transactions below S\$100,000 in value to be included under the IPT Mandate. However, the Company's audit committee (the "**Audit Committee**") will review, on a yearly basis, all Product Sales that have a value below S\$100,000.
- ii. A threshold limit of RMB 15 million for each Interested Person Transaction (the "**Threshold Limit**") will be applied. The Threshold Limit has been set and is regarded as reasonable by the Independent Directors (deemed independent for the purpose of the IPT Mandate) based on (i) the anticipated value of potential Product Sales that the Group may enter into with the Interested Persons going forward⁽¹⁾ and (ii) the review procedures set out in Section 4.2.1 of this Letter and including the various approval limits to be implemented for such Product Sales as set out below.

Note:

(1) As at the Latest Practicable Date, the value of the single largest Product Sale is approximately RMB 7 million and the value of future Product Sales may increase.

- iii. Where a Product Sale exceeds the Threshold Limit, such transaction must be reviewed and approved by the Audit Committee prior to the Group entering into such a transaction.
- iv. Where a Product Sale transaction does not exceed the Threshold Limit, such transaction does not require the Audit Committee's prior approval. However, these transactions with a value equivalent to or greater than S\$100,000 will be reviewed on at least a half-yearly basis by the Audit Committee to ensure that they are conducted on normal commercial terms and in accordance with the review procedures outlined above. All relevant non-quantitative factors such as (but not limited to) the nature of the products and prevailing market conditions will also be taken into consideration.

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

Approval Limits	Relevant Approving Authority
Transactions of or above S\$100,000 but not exceeding RMB 10 million ⁽¹⁾	1 Director and the head of finance (China operations)
Transactions above RMB 10 million but not exceeding the Threshold Limit	2 Directors and the head of finance (China operations)
Transactions above the Threshold Limit	Audit Committee

Note:

(1) As at the Latest Practicable Date, the value of the single largest Product Sale is approximately RMB 7 million and the value of future Product Sales may increase.

4.2.3 Register of Interested Person Transactions

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

4.2.4 Periodic Review

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

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

4.2.5 Interested Audit Committee Member to Abstain

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

4.2.6 Further Compliance

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

4.3 Validity Period of the IPT Mandate

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

4.4 Disclosure in the Annual Report

The Company will announce the aggregate value of transactions conducted with the Interested Persons pursuant to the IPT Mandate for the relevant financial periods which the Company is required to report on pursuant to the Listing Manual and within the time required for the announcement of such reports.

Disclosure will also be made in the Company's annual report of the aggregate value of transactions conducted with the Interested Persons pursuant to the IPT Mandate during the financial year, and in the annual reports for subsequent financial years that the IPT Mandate continues in force, in accordance with the requirements of Chapter 9 of the Listing Manual.

The name of the Interested Person and the corresponding aggregate value of the Interested Person Transactions will be presented in the following format:

Name of Interested Person	Aggregate value of all interested person transactions during the financial year under review (excluding transactions less than \$100,000 and transactions conducted under Shareholders' mandate pursuant to Rule 920 of the Listing Manual)	Aggregate value of all interested person transactions conducted under Shareholders' mandate pursuant to Rule 920 of the Listing Manual (excluding transactions less than \$100,000)
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5. OUR OPINION

In arriving at our opinion, we have considered, *inter alia*, the following:

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

Having considered all of the above and the information available to us as at the Latest Practicable Date, we are of the opinion that the guidelines and review procedures for determining the transaction prices of the Interested Person Transactions covered under the IPT Mandate as set out in Section 2.8 of the Circular, if adhered to, are sufficient to ensure that the Interested Person Transactions will be carried out on normal commercial terms and will not be prejudicial to the interests of the Company and its minority Shareholders.

Our opinion is addressed to the Independent Directors for the purpose of their consideration of the adoption of the IPT Mandate, and the recommendation to be made by them to the Independent Shareholders shall remain the sole responsibility of the Independent Directors. Whilst a copy of this Letter may be reproduced in the Circular, neither the Company nor the Directors may reproduce, disseminate or quote this Letter (or any part thereof) for any other purpose other than for the purpose of the EGM and for the purpose of the IPT Mandate, at any time and in any manner without the prior written consent of Provenance Capital in each specific case.

This Letter is governed by, and construed in accordance with, the laws of Singapore, and is strictly limited to the matters stated herein and does not apply by implication to any other matter. Nothing herein shall confer or be deemed or is intended to confer any right of benefit to any third party and the Contracts (Rights of Third Parties) Act, Chapter 53B of Singapore and any re-enactment thereof shall not apply.

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

Wong Bee Eng
 Chief Executive Officer

Soo Hsin Yu
 Associate Director

FABCHEM CHINA LIMITED

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

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an Extraordinary General Meeting (“**EGM**”) of Fabchem China Limited (the “**Company**”) will be convened on 10 November 2011 at 10.30 a.m. at 39 Fishery Port Road, Jurong, Singapore 619745 for the purpose of considering and, if thought fit, passing with or without any modifications the following resolution:

ORDINARY RESOLUTION

RESOLVED THAT:

THE PROPOSED SHAREHOLDERS’ MANDATE FOR INTERESTED PERSON TRANSACTIONS

- (a) approval be and is hereby given, for the purposes of Chapter 9 of the Listing Manual of the SGX-ST, for the Company, its subsidiaries and associated companies that are entities at risk (as defined in Chapter 9 of the Listing Manual of the SGX-ST), or any of them, to enter into any of the transactions falling within the types of Interested Person Transactions described in Section 2.7 of the Circular with the class of Interested Persons (as described in Section 2.6 of the Circular), provided that such transactions are made on normal commercial terms, will not be prejudicial to the interests of the Company and its minority shareholders and are in accordance with the guidelines and review procedures for such Interested Person Transactions (the “**IPT Mandate**”);
- (b) the IPT Mandate shall, unless revoked or varied by the Company in general meeting, continue in force until the conclusion of the next annual general meeting of the Company;
- (c) the Audit Committee of the Company be and is hereby authorised to take such action as it deems proper in respect of procedures and/or to modify or implement such procedures as may be necessary to take into consideration any amendments to Chapter 9 of the Listing Manual which may be prescribed by the SGX-ST from time to time; and
- (d) the board of directors of the Company and any of them be and are hereby authorised to complete and do all such acts and things (including without limitation, executing all such documents as may be required) as they or he may consider expedient or necessary or in the interests of the Company to give effect to the transactions contemplated and/or authorised by the IPT Mandate and/or this Resolution.

By Order of the Board

Tan Min-Li
Company Secretary

24 October 2011

Notes: -

- (a) Every shareholder of the Company entitled to attend and vote at the Extraordinary General Meeting is entitled to appoint not more than two proxies to attend and vote on his behalf. A proxy need not be a shareholder of the Company.
- (b) A shareholder of the Company which is a corporation is entitled to appoint its authorised representative or proxies to vote on its behalf.
- (c) The instrument appointing a proxy must be deposited at the registered office of the Company at 8 Cross Street #11-00 PWC Building Singapore 048424 (or 80 Robinson Road, #02-00, Singapore 068898 after 31 October 2011 due to relocation of office premises) at least 48 hours before the time set for the Extraordinary General Meeting or any postponement or adjournment thereof.

FABCHEM CHINA LIMITED

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

IMPORTANT:

1. For investors who have used their CPF monies to buy the Company's share, this Circular is forwarded to them at the request of their CPF Approved Nominees and is sent solely FOR INFORMATION ONLY.
2. This Proxy Form is not valid for use by CPF Investors and shall be ineffective for all intends and purposes if used or purported to be used by them.
3. CPF Investors who wish to attend the Extraordinary General Meeting as OBSERVERS have to submit their requests through their respective Agent Banks so that their Agent Banks may register with the Company Secretary of Fabchem China Limited.

PROXY FORM

I/We _____ (Name and NRIC /Passport No.)

of _____ (Address)

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

Name	Address	NRIC/ Passport No.	Number of Shares Represented

and/or (delete as appropriate)

Name	Address	NRIC/ Passport No.	Number of Shares Represented

or failing him/her, the Chairman of the Meeting as my/our proxy/proxies to vote for me/us on my/our behalf and, if necessary, to demand a poll at the Extraordinary General Meeting of the Company to be convened on 10 November 2011 at 10.30 a.m. at 39 Fishery Port Road, Jurong, Singapore 619745 and at any adjournment thereof. I/We direct my/our proxy/ proxies to vote for or against the Ordinary Resolution to be proposed at the Extraordinary General Meeting as indicated hereunder. If no specific direction as to voting is given, the proxy/proxies will vote or abstain from voting at his/her/their discretion, as he/she/they will on any other matter arising at the Extraordinary General Meeting. The authority herein includes the right to demand or to join in demanding a poll and to vote on a poll.

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

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

Dated this _____ day of _____ 2011.

Total Number of Shares held

--

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



IMPORTANT PLEASE READ NOTES BELOW BEFORE COMPLETING THIS PROXY FORM

Notes:-

1. A shareholder of the Company entitled to attend and vote at the Extraordinary General Meeting is entitled to appoint one or two proxies to attend and vote in his/her stead. A proxy need not be a shareholder of the Company.
2. Where a shareholder of the Company appoints more than one proxy, the appointments shall be invalid unless he specifies the proportion of his/her shareholding (expressed as a percentage of the whole) to be represented by each proxy.
3. A shareholder of the Company should insert the total number of shares held. If the shareholder of the Company has shares entered against his/her name in the Depository Register (as defined in Section 130A of the Companies Act, Cap. 50 of Singapore), he/she should insert that number of shares. If the shareholder of the Company has shares registered in his/her name in the Register of Members of the Company, he/ she should insert that number of shares. If the shareholder of the Company has shares entered against his/her name in the Depository Register and registered in his/her name in the Register of Members, he/she should insert the aggregate number of shares. If no number is inserted, the instrument appointing a proxy or proxies will be deemed to relate to all shares held by the shareholder of the Company.
4. The instrument appointing a proxy or proxies must be deposited at the registered office of the Company located at 8 Cross Street #11-00 PWC Building Singapore 048424 (or 80 Robinson Road, #02-00, Singapore 068898 after 31 October 2011 due to relocation of office premises) not less than 48 hours before the time set for the Extraordinary General Meeting.
5. The instrument appointing a proxy or proxies must be under the hand of the appointor or by his/her attorney duly authorised in writing. Where the instrument appointing a proxy or proxies is executed by a corporation, it must be executed either under its common seal or under the hand of its attorney or a duly authorised officer.
6. Where an instrument appointing a proxy or proxies is signed on behalf of the appointor by an attorney, the letter or power of attorney or a duly certified true copy thereof must (failing previous registration with the Company) be lodged with the instrument of proxy, failing which the instrument may be treated as invalid.
7. A corporation which is a shareholder of the Company may, in accordance with Section 179 of the Companies Act, Cap. 50 of Singapore, authorise by resolution of its directors or other governing body such person as it thinks fit to act as its representative at the Extraordinary General Meeting.
8. The Company shall be entitled to reject the instrument appointing a proxy or proxies, if it is incomplete, improperly completed, illegible or where the true intentions of the appointor are not ascertainable from the instructions of the appointor specified on the instrument appointing a proxy or proxies. In addition, in the case of shares entered in the Depository Register, the Company may reject any instrument appointing a proxy or proxies if a shareholder of the Company, being the appointor, is not shown to have shares entered against his/her name in the Depository Register as at 48 hours before the time appointed for holding the Extraordinary General Meeting, as certified by the Central Depository (Pte) Limited to the Company.