CIRCULAR DATED 16 AUGUST 2016

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 (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, please forward this Circular, the Notice of Extraordinary General Meeting and the attached Proxy Form immediately to the purchaser or transferee or to the bank, stockbroker or agent through whom the sale or the transfer was effected for onward transmission to the purchaser or the transferee.

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

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

CIRCULAR TO SHAREHOLDERS

IN RELATION TO

THE PROPOSED DISPOSAL OF THE ENTIRE EQUITY INTEREST IN HEBEI YINGUANG CHEMICAL CO., LTD. BY A WHOLLY-OWNED SUBSIDIARY OF THE COMPANY

Independent Financial Adviser to the Directors in respect of the Proposed Disposal

PROVENANCECAPITAL

PROVENANCE CAPITAL PTE. LTD.
(Company Registration Number: 200309056E)
(Incorporated in Republic of Singapore)

IMPORTANT DATES AND TIMES

Last date and time for lodgement of Proxy Form	:	29 August 2016 at 9.30 a.m.
Date and time of Extraordinary General Meeting	:	31 August 2016 at 9.30 a.m.
Place of Extraordinary General Meeting	:	2 Bukit Merah Central, Level 1 Drucker/Juran Boardroom, Singapore 159835

CONTENTS

DEFINITIONS

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

Companies, Organisations and Agencies

"CDP"	:	The Central Depository (Pte) Limited
"Company"	:	Fabchem China Limited
"Group"	:	The Company and its subsidiaries as at the Latest Practicable Date
"Hebei Yinguang"	:	Hebei Yinguang Chemical Co., Ltd (河北银光化工有限公司), a wholly-owned subsidiary of the Vendor (the latter is in turn a wholly-owned subsidiary of the Company)
"IFA"	:	Provenance Capital Pte. Ltd., the independent financial adviser appointed by the Company to advise the Directors of the Company on the Proposed Disposal
"Independent Valuer"	:	AVA Associates Limited, the independent valuer appointed by the Company to value the non-current assets of Hebei Yinguang which include the lands use rights and property, plant and equipment
"SGX-ST"	:	Singapore Exchange Securities Trading Limited
"Vendor"	:	Shandong Yinguang Technology Co., Ltd, a wholly-owned subsidiary of the Company
"Wang Jian (王健)"	:	The purchaser of the entire equity interest in Hebei Yinguang pursuant to the Agreement and Supplemental Agreement and who is a general manager and one of the directors of Hebei Yinguang, further information of which is set out in Section 2.3 of this Circular

General

"1Q2017"	:	3-month period ended 30 June 2016
"2008 Acquisition"	:	The acquisition by the Vendor of the entire equity interest in Hebei Yinguang from Shandong Yinguang Chemical Group Co., Ltd in 2008
"2008 Circular"	:	The Company's circular dated 29 August 2008 in relation to the 2008 Acquisition
"Agreement"	:	The equity purchase agreement dated 16 June 2016 entered into between the Vendor and Wang Jian (王健) in relation to the Proposed Disposal
"Associate"	:	This term shall have the same meaning as ascribed to it in the SGX-ST Listing Manual, as amended from time to time
"Board"	:	The board of Directors of the Company as at the date of this Circular
"Business Day"	:	A day (excluding Saturdays, Sundays and gazetted public holidays) on which commercial banks are open for business in Singapore and the PRC
"Circular"	:	This circular to Shareholders dated 16 August 2016

"Companies Act"	:	The Companies Act (Chapter 50) of Singapore, as amended, supplemented or modified from time to time
"Completion"	:	The completion of the Proposed Disposal
"Completion Date"	:	The date of Completion, being 14 Business Days after the date on which the last of the Conditions is fulfilled, or such other date as the parties to the Agreement may mutually agree in writing
"Condition(s)"	:	The condition(s) precedent to be fulfilled under the Agreement prior to the completion of the Proposed Disposal, further details of which are set out in Section 2.5(ii) of this Circular
"Consideration"	:	RMB 1.00
"Constitution"	:	The memorandum and articles of the Company which were in force immediately before the Companies (Amendment) Act 2014 which took effect in phases on 1 July 2015 and 3 January 2016, respectively
"Controlling Shareholder"	:	A person who:- (i) holds, directly or indirectly, 15% or more of the nominal amount of all the voting shares in a company (provided that the SGX-ST may determine that a person who satisfies this definition is not a controlling shareholder); or (ii) in fact exercises control over a company
"Directors"	:	The directors of the Company as at the date of this Circular
"EGM"	:	The extraordinary general meeting of the Shareholders to be convened for the purposes of considering and, if thought fit, passing the resolution set out in the Notice of EGM set out at page N-1 of this Circular
"FY"	:	Financial year ended, or as the case may be, ending, 31 March
"IFA Letter"	:	The letter from the IFA addressed to the Directors of the Company as set out in Appendix B of this Circular
"Independent Valuation Report"	:	The independent valuation report from the Independent Valuer on the valuation of non-current assets of Hebei Yinguang, which include the lands use rights and property, plant and equipment as set out in Appendix A of this Circular
"Latest Practicable Date"	:	3 August 2016, being the latest practicable date prior to the printing of this Circular
"Listing Manual"	:	The listing manual of the SGX-ST
"LPS"	:	Loss per Share
"Market Day"	:	A day on which the SGX-ST is open for trading in securities
"Notice of EGM"	:	The notice of the EGM as set out on page N-1 of this Circular
"NLV"	:	Net liability value
"NTA"	:	Net tangible assets

"PRC"	:	The People's Republic of China, excluding Hong Kong, Macau and Taiwan
"Proposed Disposal"	:	The proposed disposal of the entire equity interest in Hebei Yinguang pursuant to and subject to the terms and conditions of the Agreement and Supplemental Agreement
"SFA"	:	The Securities and Futures Act (Chapter 289) of Singapore
"Shareholder's Loan"	:	The existing shareholder's loan of approximately RMB 32.70 million as at 31 March 2016 and approximately RMB 33.32 million as at the Latest Practicable Date owing by Hebei Yinguang to the Vendor, further details of which are set out in Section 2.2 of this Circular
"Shareholders"	:	Registered holders of Shares, except that where the registered holder is CDP, the term "Shareholders" shall, in relation to such Shares, mean the persons whose direct Securities Accounts maintained with CDP are credited with the Shares
"Shares"	:	Ordinary shares in the share capital of the Company
"Substantial Shareholder"	:	A person who has an interest in not less than 5% of the issued voting shares of the Company
"Supplemental Agreement"	:	The supplemental agreement dated 8 August 2016 entered into between the Vendor and Wang Jian (王健) in relation to the Proposed Disposal

Currencies, Units of Measurements and Others

"SGD"	:	Singapore dollars, the lawful currency of Singapore
"RMB" or "RMB cents"	:	Renminbi and cents respectively, the lawful currency of PRC
"%"	:	Per centum or percentage

The terms "**Depositor**" and "**Depository Register**" shall have the meanings ascribed to them respectively in Section 81SF of the SFA.

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, SFA or the Listing Manual or any modification thereof and not otherwise defined in this Circular shall have the same meaning assigned to it under the Companies Act, SFA or the Listing Manual or any modification thereof, as the case may be.

Any reference to a date or time of day in this Circular is made by reference to Singapore date and 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.

Any reference to "**you**", "**your**" and "**yours**" in this Circular is, as the context so determines, to Shareholders.

The headings in this Circular are inserted for convenience only and shall not affect the construction of this Circular.

FABCHEM CHINA LIMITED

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

Board of Directors:

Dr Lim Seck Yeow *(Non-Executive Chairman)*
Sun Bowen *(Managing Director)*
Bao Hongwei *(Executive Director and General Manager)*
Frankie Manuel Micallef *(Non-Executive Director)*
Gregory John Hayne *(Non-Executive Director)*
Wee Phui Gam *(Lead Independent Director)*
Professor Jiang Rongguang *(Independent Director)*

Registered Office:

80 Robinson Road
#02-00
Singapore 068898

Date: 16 August 2016

To: The Shareholders of Fabchem China Limited

Dear Sir/Madam

THE PROPOSED DISPOSAL OF THE ENTIRE EQUITY INTEREST IN HEBEI YINGUANG CHEMICAL CO., LTD. BY A WHOLLY-OWNED SUBSIDIARY OF THE COMPANY

1 INTRODUCTION

1.1 On 16 June 2016, the Directors announced that Shandong Yinguang Technology Co., Ltd (the "**Vendor**"), a wholly-owned subsidiary of the Company, had entered into an equity purchase agreement dated 16 June 2016 (the "**Agreement**") with Wang Jian (王健), pursuant to which the Vendor will dispose of the entire equity interest in Hebei Yinguang Chemical Co., Ltd ("**Hebei Yinguang**") to Wang Jian (王健) (the "**Proposed Disposal**") for a nominal sum of RMB 1.00 (the "**Consideration**"). The Vendor had further entered into a Supplemental Agreement with Wang Jian (王健) on 8 August 2016 to vary the terms in the Agreement in respect of the Proposed Disposal. The announcements in relation to the Proposed Disposal are available on the website of SGX-ST at www.sgx.com.

1.2 The purpose of this Circular is to provide Shareholders with relevant information pertaining to the Proposed Disposal including, *amongst others*, the rationale, salient terms and conditions, and financial effects of the Proposed Disposal. The approval of the Shareholders for the Proposed Disposal will be sought at the EGM.

2 THE PROPOSED DISPOSAL

2.1 Information on Hebei Yinguang

Hebei Yinguang was incorporated in the PRC on 1 February 2007 with a registered capital of RMB 9,000,000, and its registered office is at Chenlin, West of Linxi County, Linxi County, Hebei Province of the PRC. As at the Latest Practicable Date, the Company's Managing Director Sun Bowen is the legal representative of Hebei Yinguang.

It is principally engaged in the business of manufacturing and selling ammonium nitrate in the PRC under the brand name of "Yinguang Weihe" ("银光卫河"). Ammonium nitrate is a major raw material used primarily for the manufacture of explosives. While the manufacturing and sale of ammonium nitrate allows the Group to expand its product range, it is a distinct and separate business from the initiation systems business, targeting different markets and segments within the commercial explosives industry. The manufacture of initiation systems does not require the supply of ammonium nitrate which is used primarily for the production of explosives.

Hebei Yinguang owns a manufacturing facility with a total land area of approximately 103,000 square metres and built-up area of 20,450 square metres, and an annual production capacity of approximately 70,000 tonnes.

Hebei Yinguang has temporarily ceased its production of ammonium nitrate in FY2016 due to weak market conditions and a fall in demand and prices for the product. The prevailing market prices of ammonium nitrate have deteriorated to such an extent that they are lower than the production costs. In other words, Hebei Yinguang would incur a loss for every tonne of ammonium nitrate it produces based on the prevailing market prices. Accordingly, Hebei Yinguang did not renew its ammonium nitrate production licence and allowed the latter to lapse and expire in June 2015. Should market conditions improve and the production of ammonium nitrate resume in the future, Hebei Yinguang will re-apply for the said licence. Having been a previous holder of the licence without any adverse track record, it does not expect any difficulties or impediments to do so.

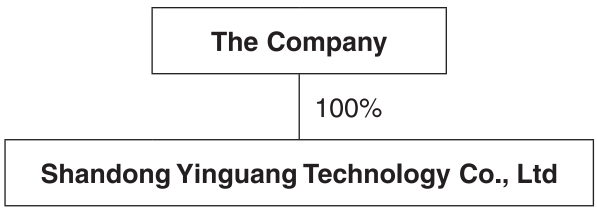
Notwithstanding that it has temporarily ceased production operations, Hebei Yinguang currently still maintains a headcount of approximately 180 employees and incurs fixed operating costs and administrative expenses including financing costs. The financial information of Hebei Yinguang is set out below.

Group Structure

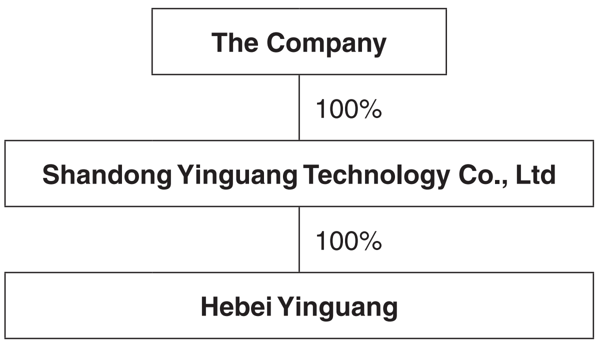
The Vendor acquired Hebei Yinguang from Shandong Yinguang Chemical Group Co., Ltd in 2008 at the consideration of RMB 30.23 million (the "**2008 Acquisition**").

As disclosed in section 6.2 of the Company's circular dated 29 August 2008 in respect of the 2008 Acquisition (the "**2008 Circular**"), prior to the 2008 Acquisition, Hebei Yinguang was a wholly-owned subsidiary of Shandong Yinguang Chemical Group Co., Ltd, an investment holding company. The Company's controlling shareholder and managing director, Sun Bowen, was a director of Shandong Yinguang Chemical Group Co., Ltd and owned 62.4% of its registered capital as at the then latest practicable date, 25 August 2008. Shandong Yinguang Chemical Group Co., Ltd was therefore an Associate of Sun Bowen at the time of the 2008 Acquisition. As at 25 August 2008, Bao Hongwei, an executive director and 4.8% shareholder of the Company, was also a director of Shandong Yinguang Chemical Group Co., Ltd and had an interest of 6.0% of the registered capital of Shandong Yinguang Chemical Group Co., Ltd.

Prior to the 2008 Acquisition, the structure of the Group was as follows:



The structure of the Group after the completion of the 2008 Acquisition is as follows:-



Wang Jian does not currently or in the past have any directorship, employment, shareholding or business relationships with Shandong Yinguang Chemical Group Co. Ltd, other than as a general manager and one of the directors of Hebei Yinguang.

Financial Information of Hebei Yinguang

Based on the Group's audited consolidated financial statements for the relevant financial years, the financial information of Hebei Yinguang is set out below:

Profit and Loss	**FY2014 (RMB '000)**	**FY2015 (RMB '000)**	**FY2016 (RMB '000)**
Revenue	85,101	36,852	2,007
Cost of sales	(84,225)	(36,915)	(1,615)
Gross profit / (loss)	876	(63)	392
Interest income	420	716	530
Financial costs	(2,253)	(2,497)	(3,539)
Distribution costs	(4,872)	(3,212)	(271)
Administrative costs	(6,897)	(6,776)	(5,475)
Other charges	(60,261)	(6,426)	–
Loss before taxation	(72,987)	(18,258)	(8,363)
Taxation	(1,081)	1,790	26
Loss after taxation	(74,068)	(16,468)	(8,337)

Balance Sheet	**FY2016 (RMB '000)**
Non-current assets (*Note 1*)	17,637
Current assets (*Note 2*)	45,501
Total assets	**63,138**
Non-current liability (*Note 3*)	990
Current liabilities (*Note 3*)	121,622
Total liabilities	**122,612**
Total equity / Net liabilities (*Note 4*)	**(59,474)**

Note 1	**FY2016 (RMB '000)**
Property, plant & equipment	6,747
Land use rights	10,890
Total non-current assets	**17,637**

Note 2	**FY2016 (RMB '000)**
Trade receivables	4,040
Other receivables	9,330
Inventories	2,029
Cash and bank balances #	30,102
Current assets	**45,501**

Note 3	FY2016 (RMB '000)
Deferred tax liabilities	990
Total non-current liability	**990**
Trade payables	19,047
Bills payables (Bank Trading Facilities) #	30,000
Other payables	1,756
Bank loan	29,991
Due to Shandong Yinguang Technology Co., Ltd	32,656
Due to Linxi County Nitrogenous Fertilizer Co., Ltd. – Third party	8,172
Total current liabilities	**121,622**

As at the Latest Practicable Date, the cash and bank balances set out in Note 2 above has been utilised to repay the bills payables set out in Note 3 above.

Note 4	FY2016 (RMB '000)
Issued capital	9,000
Other reserve	1,161
Accumulated losses	(69,635)
Total equity / Net liabilities	**(59,474)**

Independent Valuation Report

To assess if there are any material differences between the book value and the market value of the non-current assets of Hebei Yinguang, the Company has commissioned the Independent Valuer, AVA Associates Limited, to value the said non-current assets. The said valuation was undertaken based on a desktop analysis instead of a physical inspection, in consideration of (i) the valuation methodology adopted by the Independent Valuer being the same for both a desktop valuation and physical site valuation and thus the valuation outcome not being materially different, (ii) a desktop valuation being less costly and (iii) the purpose of the valuation – as a basis of comparison with the book value of the non-current assets rather than as a basis or reference for the Consideration.

These non-current assets comprise primarily the land use rights, property, plant and equipment. According to the Independent Valuation Report set out in Appendix A of this Circular, the market value of the non-current assets of Hebei Yinguang as at 31 March 2016 was approximately RMB 22.1 million. The Independent Valuer adopted the cost approach, the market approach and the direct comparison approach in arriving at the market value of the non-current assets. Please refer to the full text of the Independent Valuation Report set out in Appendix A of this Circular.

Accordingly, based on the aforesaid market value of its non-current assets, the net liability value of Hebei Yinguang would be approximately RMB 55.0 million, which is not materially different from the net liability value of approximately RMB 59.5 million based on the audited consolidated financial statements of the Group for FY2016.

To the best of the Directors' knowledge, the Independent Valuer, AVA Associates Limited, based in Hong Kong and Singapore, has been providing independent valuation services to clients in Asia since 2008. The Independent Valuer provides transaction-based advisory services, primarily focusing on independent valuation services to assist its clients to comply with internal and external requirements. The valuation expertise of the Independent Valuer covers all classifications of tangible and intangible assets, focusing on four key competencies of business valuation, financial instrument valuation, intellectual property valuation and fixed asset valuation. The Independent Valuer has undertaken valuation work for companies listed on the SGX-ST.

2.2 Total Amount of Investments in Hebei Yinguang

Total Investment into Hebei Yinguang

As at the Latest Practicable Date, the Vendor has invested approximately RMB 42.32 million in Hebei Yinguang, comprising:

(i) the initial consideration of RMB 30.23 million for the 2008 Acquisition (comprising RMB 21.23 million of interest-free loan then due and owing to Shandong Yinguang Chemical Group Co., Ltd and RMB 9.0 million of the then equity interest in Hebei Yinguang); and

(ii) approximately RMB 12.09 million of loans extended by the Vendor to Hebei Yinguang subsequent to the 2008 Acquisition and up to the Latest Practicable Date.

Shareholder's Loan

As at the Latest Practicable Date, the Shareholder's Loan of approximately RMB 33.32 million is owing by Hebei Yinguang to the Vendor. The Shareholder's Loan comprises:-

(a) approximately RMB 21.23 million of loans which was then owing to the previous owner of Hebei Yinguang, namely the Shandong Yinguang Chemical Group Co., Ltd, prior to the 2008 Acquisition and which was assumed by the Vendor as part of the consideration for the 2008 Acquisition, as mentioned above and disclosed in the 2008 Circular; and

(b) approximately RMB 12.09 million of loans extended by the Vendor to Hebei Yinguang subsequent to the 2008 Acquisition and up to the Latest Practicable Date.

Details of the net amount of loans extended to and repayments from Hebei Yinguang are set out below, based on the Group's audited consolidated financial statements for the relevant financial years:-

No.	Financial Year / Period	Net Amount of Loan Extended for Each Financial Year / Period (RMB)
1.	FY 2009	(9,000,000)
2.	FY 2010	14,549,504
3.	FY 2011	4,450,496
4.	FY 2012	(120,000)
5.	FY 2013	1,500,000
6.	FY 2014	(2,000,000)
7.	FY 2015	300,000
8.	FY 2016	1,749,618
9.	As at the Latest Practicable Date	660,000

The negative figure for each of FY2009, FY2012 and FY2014 represents the net amount of loans repaid by Hebei Yinguang to the Vendor at the respective financial year end.

The said loans of RMB 12.09 million were extended to Hebei Yinguang for the purposes of the ammonium nitrate production capacity expansion plan as disclosed in the 2008 Circular and for general working capital purposes, in particular acquiring additional machinery and equipment, payment for related construction work and ancillary expenses such as installation and design fees in relation to the said ammonium nitrate production capacity expansion plan. The factory premises were increased by approximately 450 square metres and the ammonium nitrate production capacity of Hebei Yinguang was increased from 30,000 tonnes per annum to 70,000 tonnes per annum after the completion of the said ammonium nitrate production capacity expansion plan.

Please refer to Section 2.4(i) below for further information on the Shareholder's Loan.

To facilitate the Proposed Disposal, the Company will waive the aforesaid Shareholder's Loan as the Company is unable to find any other buyer who will take up such liabilities.

2.3 Information on Wang Jian (王健)

Wang Jian (王健) is currently one of the directors of Hebei Yinguang. He is also the general manager in charge of the day-to-day business operations of Hebei Yinguang since 29 January 2007.

Wang Jian (王健) has represented and warranted that he has no relationship with nor act as a nominee or trustee to the Directors and/or Controlling Shareholders of the Company or their respective nominees or Associates. Pursuant to the terms of the Agreement, Wang Jian (王健) has also represented and warranted that he is undertaking the acquisition of the entire equity interest in Hebei Yinguang on his own accord and will, upon Completion, be the ultimate beneficial owner and legal representative of Hebei Yinguang.

2.4 Rationale for the Proposed Disposal

The Company is of the view that the Proposed Disposal would be beneficial for and in the interests of the Group for the following reasons:-

(i) Hebei Yinguang requires substantial financial support from the Vendor and/or the Company in order to fund fixed operating costs and administrative expenses including financing costs. This is notwithstanding that production of ammonium nitrate has temporarily ceased in FY2016 due to weak market conditions. As at the Latest Practicable Date, a total of approximately RMB 33.32 million of Shareholder's Loan has been extended to Hebei Yinguang, of which RMB 12.09 million was granted to Hebei Yinguang subsequent to the 2008 Acquisition, as described in Section 2.2 above. In addition, Hebei Yinguang has existing bank loans of approximately RMB 30.0 million as at the Latest Practicable Date. The monthly interest payments for the said loans are approximately RMB 170,000. The Proposed Disposal will therefore reduce this financial burden on the Company and the Group's cash flow and is expected to allow the Company to improve its financial position.

(ii) Based on the audited consolidated financial statements of the Group for FY2016, losses attributable to Hebei Yinguang amounted to approximately RMB 8.3 million. For FY2013, FY2014 and FY2015, losses attributable to Hebei Yinguang amounted to approximately RMB 2.7 million, RMB 74.1 million and RMB 16.5 million respectively. The RMB 2.7 million of losses for FY2013 was after deducting allowance for stocks obsolescence of approximately RMB 208,000 and writing-off fixed assets of approximately RMB 503,000. The losses are due mainly to a slowdown in China's economy and weakening market conditions for ammonium nitrate, which in the management's view have little possibility of recovery in the near future.

(iii) Based on the audited consolidated financial statements of the Group for FY2016, Hebei Yinguang was in a net liability position of approximately RMB 59.5 million as at 31 March 2016. After the waiver of the Shareholder's Loan, as at 31 March 2016 and the Latest Practicable Date, the net liability position of Hebei Yinguang as at 31 March 2016 will be approximately RMB 26.8 million and RMB 26.2 million respectively.

(iv) The Proposed Disposal will therefore allow the Group to dispose of this loss-making business and entity with net tangible liability, as well as to reduce its fixed operating costs through savings in interest payable on bank loans and administrative expenses of the Group.

(v) The main revenue of the Group is derived from manufacturing initiation systems, such as boosters, detonating cords and detonators. While the manufacturing and sale of ammonium nitrate allows the Group to expand its product range, it is a distinct and separate business from the initiation systems business, targeting different markets and segments within the commercial explosives industry. The manufacture of initiation systems does not require supply of ammonium nitrate which is used primarily for the production of explosives. As such, the Proposed Disposal will not have a material impact on the Group's core initiation systems business.

(vi) The Proposed Disposal would give rise to positive financial effects for the Group, in particular a gain on disposal of approximately RMB 26.8 million and a reduction in the gearing of the Company. Please refer to Section 4 below for the financial effects of the Proposed Disposal on the Group.

(vii) After the completion of the Proposed Disposal, the Group will no longer have to be burdened by the provision of financial support to Hebei Yinguang, as discussed in sub-Sections 2.4(i) and (vi) above (including the monthly interest payments for existing bank loans of approximately RMB 170,000). The Proposed Disposal will therefore allow the Group to reallocate its resources to focus on its existing core businesses and any future business opportunity going forward. This is also in line and consistent with the Group's intent of maximising return to Shareholders.

(viii) Hebei Yinguang has temporarily ceased its production operations due to weak market conditions, has been loss making and is in a net liability position. Further, notwithstanding cessation of production, substantial financial support is still required to fund fixed operating costs and administrative expenses, including financing costs. In view thereof, it was difficult for the Company to procure a third party purchaser for Hebei Yinguang, apart from Wang Jian (王健), who has been the general manager of Hebei Yinguang since 2007. Please also refer to Section 2.5(iii) for the representations, warranties and undertakings from Wang Jian (王健). To facilitate the Proposed Disposal and pursuant to negotiations between the parties involved, the Company has also agreed to a nominal amount of Consideration and to waive the Shareholder's Loan as a condition of the Proposed Disposal.

(ix) As discussed above, Hebei Yinguang is in a net liability position of approximately RMB 59.5 million as at 31 March 2016, and after the waiver of the Shareholder's Loan as at 31 March 2016 and the Latest Practicable Date, the net liability position of Hebei Yinguang as at 31 March 2016 is approximately RMB 26.8 million and RMB 26.2 million respectively. In an event of liquidation, its assets would not be sufficient to repay all its liabilities, and as a shareholder, the Vendor would be last in line after all the creditors to receive any distribution. In addition, should any legal proceedings ensue from the liquidation process, it may take the Group an inordinate amount of time to complete the liquidation process.

The current weak market conditions and the challenging business environment also does not justify any further investments by the Group in Hebei Yinguang to either continue to finance its operating costs or for Hebei Yinguang to explore new business opportunities or any restructuring exercise, both of which carry high business risks with an uncertain investment horizon.

In the circumstances as aforesaid, the Proposed Disposal is in the view of the Board the most appropriate course of action.

2.5 Salient Terms of the Agreement and Supplemental Agreement

The salient terms of the Agreement and Supplemental Agreement comprise, *amongst others*, the following:-

(i) **Consideration**

As disclosed and explained in Section 2.4 above, Hebei Yinguang is in a net liability position (net liability value was approximately RMB 59.5 million as at 31 March 2016) and it has been loss-making since FY2013. Notwithstanding that it has temporarily ceased production operations, it requires substantial financial support to fund fixed operating costs and administrative expenses including financing costs. As such, notwithstanding the Company's numerous attempts to negotiate with and procure a prospective third party purchaser for the disposal of Hebei Yinguang, the Company was not able to do so under the current unfavourable market conditions.

To the best of the Directors' knowledge, the weak market conditions of ammonium nitrate in the PRC is likely to persist due to the fact that the supply of ammonium nitrate in the PRC market is far greater than market demand and as a result, the prices of ammonium nitrate is likely to remain low in the near term.

The Consideration of a nominal amount of RMB 1.00 was arrived at on a willing buyer-willing seller basis and after taking into account the aforesaid factors and circumstances.

Please also refer to Section 2.4 for further information on the rationale for the Proposed Disposal, in particular sub-Sections 2.4(i), (viii) and (ix).

There is no open market value for the equity interest in Hebei Yinguang as it is not publicly traded.

The Consideration of RMB 1.00 will be satisfied by Wang Jian (王健) in cash on Completion Date.

(ii) **Conditions Precedent**

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

(a) the approval of Shareholders at a general meeting and the Board in respect of the Proposed Disposal shall have been first obtained;

(b) all other necessary consents and approvals, if any, being granted and not withdrawn or revoked by third parties (including without limitation, the SGX-ST and the relevant bank in the PRC in connection with bank loans granted to Hebei Yinguang) and if such consents are obtained subject to any condition(s) and where such condition(s) affect any of the parties;

(c) Wang Jian (王健) shall on Completion Date execute such further documents, agreements, deeds, and do such further acts and things, as may be required so that full effect shall be given to the provisions of the Agreement and the transactions contemplated under the Agreement;

(d) the Vendor agreeing in writing to waive the Shareholder's Loan;

(e) the Vendor being satisfied in its sole discretion that any obligations and liabilities of the Group in connection with Hebei Yinguang have been legally, validly and fully assigned, discharged or terminated (as the case may be); and

(f) the Directors and/or Controlling Shareholders shall cease to hold any directorship, executive position or the position of legal representative in Hebei Yinguang with effect from the Completion Date.

(iii) **Representations, Warranties and Undertakings**

(a) Wang Jian (王健) has represented and warranted that he is undertaking the acquisition of Hebei Yinguang on his own accord and upon Completion, he will be the ultimate beneficial owner of Hebei Yinguang and that he has no relationship with nor does he act as nominee or trustee to the Directors and/or Controlling Shareholders of the Company or their respective nominees or Associates.

(b) Wang Jian (王健) acknowledges that Hebei Yinguang has existing bank loans of approximately RMB 30 million in aggregate and he shall bear all liabilities for the repayment of the said bank loans and interests on such loans with effect from 1 September 2016.

(c) Wang Jian (王健) acknowledges and represents that as a general manager and one of the directors of Hebei Yinguang he is undertaking the acquisition of Hebei Yinguang with full and complete knowledge of all matters relating to and all affairs of Hebei Yinguang (including but not limited to its operational, financial and legal matters) and as such Wang Jian (王健) has irrevocably undertaken to the Vendor that he shall not commence any claims or proceedings of whatever nature against the Vendor or the Company for any liabilities of whatever nature (including but not limited to contingent liabilities) of Hebei Yinguang howsoever incurred on or prior to the Completion Date.

(d) Wang Jian (王健) also undertakes, represents and warrants to the Vendor that he shall not and shall procure Hebei Yinguang not to dispose of all or any part of the equity interest in Hebei Yinguang or any part of Hebei Yinguang's businesses and assets, within a period of six (6) months after the Completion Date, without the prior written consent of the Vendor. The Board is currently not aware of Wang Jian's intentions to dispose any equity interest in Hebei Yinguang after six (6) months.

(e) Wang Jian (王健) also undertakes, represents and warrants to the Vendor that he shall not transfer the beneficial or controlling interest (whether direct or indirectly) of Hebei Yinguang to the Directors and/or Controlling Shareholders of the Company or their respective nominees or Associates as at the date of the Supplemental Agreement and from time to time after the Completion Date.

(iv) **Completion**

Subject to the Conditions having been fulfilled or waived, the Completion of the Proposed Disposal shall take place on Completion Date. In any event, the Completion shall be no later than 30 September 2016 or such other dates as the Vendor and Wang Jian (王健) may mutually agree in writing.

(v) **Termination**

Unless otherwise agreed by the Vendor and Wang Jian (王健), the Agreement shall be terminated if the Vendor and Wang Jian (王健) (a) unanimously agree to terminate the Agreement or (b) execute a revised agreement superseding the Agreement.

3 REQUIREMENTS OF CHAPTER 10 OF THE LISTING MANUAL

3.1 General Rule under Chapter 10 of the Listing Manual

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

3.2 Application of Rule 1006 of the Listing Manual

The relative figures computed under Rule 1006 of the Listing Manual and based on the audited consolidated financial statements of the Company for FY2016 and the unaudited consolidated financial statements of the Company for the 3-month period ended 30 June 2016 ("**1Q2017**") are as follows:-

Rule 1006	Bases	Relative Figures	
		FY2016	**1Q2017**
(a)	The net asset value of the assets to be disposed of compared with the Group's net asset value	Not Meaningful[(i)]	
(b)	The net loss attributable to the assets to be disposed of compared with the Group's net loss[(ii)]	27.8%[(iii)]	24.9%[(iv)]
(c)	The aggregate value of the Consideration to be received and taking into account the Shareholder's Loan of RMB 32,656,000 as at 31 March 2016 and RMB 33,046,000 as at 30 June 2016, compared with the Company's market capitalisation on 10 June 2016, being the last Market Day on which the Company's Shares were traded preceding the date of the Agreement[(v)]	81.0%	82.0%

Rule 1006	Bases	Relative Figures	
		FY2016	1Q2017
(d)	The number of equity securities issued by the Company as consideration for an acquisition, compared with the number of equity securities previously in issue	Not applicable as no Shares will be issued in relation to the Proposed Disposal	
(e)	Aggregate volume or amount of proved and probable reserves to be disposed of, compared with the aggregate of the Group's proved and probable reserves (applicable to a disposal of mineral, oil or gas assets by a mineral, oil and gas company, but not to an acquisition of such assets)	Not applicable as the Company is not a mineral, oil and gas company	

Notes:-

(i) Not meaningful as (a) Hebei Yinguang has a net liability value of approximately RMB 26.8 million after taking into consideration the waiver of Shareholder's Loan of approximately RMB 32.7 million as at 31 March 2016, as compared to the Group's net asset value of RMB 368,054,000 as at 31 March 2016 and (b) Hebei Yinguang has a net liability value of approximately RMB 29.3 million after taking into consideration the waiver of Shareholder's Loan of approximately RMB 33.0 million as at 30 June 2016, as compared to the Group's net asset value of RMB 356,444,000 as at 30 June 2016.

The Group's net asset value of RMB 368,054,000 as at 31 March 2016 and RMB 356,444,000 as at 30 June 2016 comprise the following significant assets, excluding the assets of Hebei Yinguang:-

		RMB'000	
	Significant Assets of the Group	**31 March 2016**	**30 June 2016**
(a)	Property, plant and equipment	216,450	214,073
(b)	Land use rights	78,193	77,549
(c)	Deferred tax assets	7,514	7,465
(d)	Net current assets	94,090	88,203
(e)	Deferred tax liabilities	(1,375)	(1,550)

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

(iii) Based on Hebei Yinguang's net loss of RMB 8,363,000, as compared to the Group's net loss of RMB 30,087,000 for FY2016.

(iv) Based on Hebei Yinguang's net loss of RMB 2,875,000, as compared to the Group's net loss of RMB 11,556,000 for 1Q2017.

(v) Under Rule 1002(5), "market capitalisation" is determined by multiplying the number of Shares in issue by the weighted average price of such Shares transacted on 10 June 2016 being the last Market Day on which the Company's Shares were traded preceding the date of the Agreement. The Company's market capitalisation on 10 June 2016 was SGD 8.3 million.

As the relative figure for Rule 1006(b) exceeds 20%, the Proposed Disposal falls within the definition of a "Major Transaction" within the meaning of Rule 1014 of the Listing Manual and therefore, must be subject to the approval of Shareholders.

4 FINANCIAL EFFECTS OF THE PROPOSED DISPOSAL

The *pro forma* financial effects of the Proposed Disposal on the Company are for illustrative purposes only and do not reflect the actual future financial position of the Company following the Completion.

The *pro forma* financial effects in this section are based on the audited consolidated financial statements of the Company for FY2016 and on the following assumptions:-

(i) that Completion and the consolidation of every five (5) existing issued ordinary shares in the capital of the Company into one (1) ordinary share had taken place on 1 April 2015 for the purpose of the financial effect on loss per share ("**LPS**"); and

(ii) that Completion had taken place on 31 March 2016 for the purpose of the financial effect on NTA and gearing.

The figures set out below have not been reviewed by the Company's auditors.

4.1 **Share Capital**

As at the Latest Practicable Date, the issued and paid-up share capital of the Company is RMB 116,849,000 comprising 46,800,000 Shares. The Proposed Disposal will have no impact on the issued and paid-up share capital of the Company.

4.2 **Loss Per Share**

The *pro forma* financial effects of the Proposed Disposal on the LPS of the Company for FY2016, assuming that the Proposed Disposal and the Share Consolidation had been effected as at 1 April 2015, are as follows:-

	Before adjusting for the Proposed Disposal	After adjusting for the Proposed Disposal
Net loss after tax (RMB '000)	33,823[1]	25,486
Weighted average number of Shares ('000)	46,800	46,800
Loss per Share (RMB cents)	72.27	54.46

Note:-

(1) Net loss after tax computed based on the audited consolidated financial statements for FY2016.

4.3 **Net Tangible Assets**

The *pro forma* financial effects of the Proposed Disposal on the NTA of the Company as at 31 March 2016, assuming that the Proposed Disposal had been effected as at 31 March 2016, are as follows:-

	Before adjusting for the Proposed Disposal	After adjusting for the Proposed Disposal
NTA (RMB '000)	368,054	394,872
NTA Per Share (RMB cents)	786.44	843.74

4.4 **Gearing**

The *pro forma* financial effects of the Proposed Disposal on the gearing of the Company for FY2016, assuming that the Proposed Disposal had been effected as at 31 March 2016, are as follows:-

Gearing [1]	Times
Before adjusting for the Proposed Disposal	0.15
After adjusting for the Proposed Disposal	0.08

Note:-

(1) The Gearing was determined based on total borrowings and debt securities divided by total assets.

4.5 **Net Liability Value and Gain on the Proposed Disposal**

Based on the audited consolidated financial statements of the Group, the NLV of Hebei Yinguang is approximately RMB 59.5 million as at 31 March 2016. The Consideration represents an excess over the NLV of Hebei Yinguang of RMB 26.8 million.

The Proposed Disposal at the Consideration will give rise to a net gain on the Proposed Disposal of approximately RMB 26.8 million for the Group.

Assuming that the Proposed Disposal had been effected and the Shareholder's Loan had been waived as at 31 March 2016, the gain on Proposed Disposal was calculated as follows:-

Consideration on Proposed Disposal (RMB)	1.00
Add: Net liabilities as at 31 March 2016 (RMB)	59,474,000.00
Less: Waiver of Shareholder's Loan as at 31 March 2016 (RMB)	32,656,000.00
Gain on the Proposed Disposal (RMB)	26,818,000.00

Please see Section 4.2 for the *pro forma* financial effects of the Proposed Disposal on the LPS of the Group.

5 INTERESTS OF DIRECTORS AND SUBSTANTIAL SHAREHOLDERS IN THE PROPOSED DISPOSAL

5.1 Interests of Directors and Substantial Shareholders in the Proposed Disposal

None of the Directors and Controlling Shareholders of the Company has any interest, direct or indirect, in the Agreement, Supplemental Agreement and the Proposed Disposal (other than through their respective shareholding interests, if any, in the Company).

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

	Direct interest		**Deemed interest**		**Total Interests**	
Name of Director/ Substantial Shareholder	No. of Shares	%	No. of Shares	%	No. of Shares	%
Directors						
Sun Bowen (1)	–	–	15,140,000	32.35	15,140,000	32.35
Bao Hongwei	957,600	2.05	1,720,800	3.68 (2)	2,678,400	5.72
Dr Lim Seck Yeow (3)	–	–	3,666,800	7.84	3,666,800	7.84
Frankie Manuel Micallef	–	–	–	–	–	–
Gregory John Hayne	–	–	–	–	–	–
Wee Phui Gam	–	–	–	–	–	–
Professor Jiang Rongguang	–	–	–	–	–	–
Substantial Shareholders (Other than the Directors)						
Fortsmith Investments Limited	15,140,000	32.35	–	–	15,140,000	32.35
DNX Australia Pty Limited	13,993,200	29.90	–	–	13,993,200	29.90
Fivestar Limited	3,666,800	7.84	–	–	3,666,800	7.84
Tan Geok Bee (4)	846,200	1.81	3,666,800	7.84	4,513,000	9.65

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 1,720,800 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) 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.

5.2 **Appointment of directors in the Company**

No person is purported to be appointed to the Board pursuant to or in connection with the Proposed Disposal. Accordingly, no service contract is proposed to be entered into between the Company and any such person pursuant to or in connection with the Proposed Disposal.

6 OPINION AND ADVICE OF THE IFA

Provenance Capital Pte. Ltd. has been appointed as the IFA to advise the Directors on whether the Proposed Disposal is on normal commercial terms and not prejudicial to the interests of the Company. A copy of the IFA letter is set out in its entirety in Appendix B to this Circular. Shareholders are advised to read the IFA Letter carefully.

In arriving at the opinion in respect of the Proposed Disposal, the IFA has reviewed and examined all factors which it considers to be pertinent in its assessment, including the following key considerations:-

(a) rationale for the Proposed Disposal;

(b) financial terms of the Proposed Disposal;

(c) financial effects of the Proposed Disposal; and

(d) other relevant considerations.

Overall, having considered the above and the information available to the IFA as at the Latest Practicable Date, the IFA is of the opinion that the Proposed Disposal is on normal commercial terms and is not prejudicial to the interests of the Company.

7 AUDIT COMMITTEE'S RECOMMENDATION

Having taken into consideration the rationale for and benefits of the Proposed Disposal, the Independent Valuation Report and the IFA Letter, the audit committee of the Company is of the unanimous opinion that the Proposed Disposal is in the best interests of the Company. Accordingly, the audit committee of the Company recommends that Shareholders vote in favour of the resolution pertaining to the Proposed Disposal to be proposed at the EGM.

8 DIRECTORS' RESPONSIBILITY STATEMENT

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

Where information in this 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 this Circular in its proper form and context.

9 THE EGM

The EGM, notice of which is set out on page N-1 of this Circular, will be held on 31 August 2016 at 9.30 a.m. 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.

10 ACTION TO BE TAKEN BY SHAREHOLDERS

10.1 If a Shareholder is unable to attend the EGM and wishes to appoint a proxy to attend and vote on his behalf, he should complete, sign and return the attached Proxy Form in accordance with the instructions printed thereon as soon as possible and, in any event, so as to reach the registered office of the Company at 80 Robinson Road, #02-00, Singapore 068898 no later than 48 hours before the time fixed for 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 so wishes.

10.2 As stipulated under Section 81SJ of the SFA, 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 at least 72 hours before the EGM.

11 CONSENTS

The IFA and the Independent Valuer have given and have not withdrawn their written consents to the issue of this Circular with the inclusion of and references to their names, the IFA Letter and the Independent Valuation Report respectively in the form and context in which they appear in this Circular.

12 DOCUMENTS AVAILABLE FOR INSPECTION

The following documents may be inspected at the registered office of the Company at 80 Robinson Road, #02-00, Singapore 068898 during normal office hours from the date hereof up to and including the date of the EGM:-

(a) the Constitution;

(b) the annual report of the Company for FY2016;

(c) the IFA Letter;

(d) the consent letters of the IFA and the Independent Valuer;

(e) the Independent Valuation Report;

(f) the Agreement; and

(g) the Supplemental Agreement.

Yours faithfully

For and on behalf of the Board
Fabchem China Limited

Sun Bowen
Managing Director

VALUATION & ADVISORY

AVA Associates Limited
806 Empress Plaza
17-19 Chatham Road South
Tsim Sha Tsui, Hong Kong

Asia Valuation & Advisory Services Pte Ltd
138 Cecil Street
#08-03 Cecil Court
Singapore 069538

8 July 2016

To
The Board of Directors
Fabchem China Limited
2 Bukit Merah Central
#12-03
Singapore 159835

Dear Sirs,

Pursuant to your request, AVA Associates Limited ("AVA") has performed a desktop analysis pertaining to the Market Value of fixed assets belonging to Hebei Yinguang Chemical Co., Ltd ("Hebei Yinguang" or the "Target") as at 31 March 2016 (the "Valuation Date"). Our valuation will be used to assist the Board of Directors (the "Board") of Fabchem China Limited ("Fabchem" or the "Company") for internal reference and inclusion into a shareholder's circular in relation to a proposed disposal of the entire interest in the Target by the Company (the "Proposed Disposal"). No other use, direct or indirect, of our analysis is intended or inferred or shall be relied upon by the Board other than explicitly specified in the engagement letter herein.

Definition of Value

In estimating the value of the fixed assets of the Target, our efforts were based on the following premise of value:

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

Unless otherwise noted, in estimating the market value, we have assumed that the business and its assets will remain a going concern in accordance with the relevant literature.

Scope of Work

As part of the Proposed Disposal, we understand that Fabchem and its advisers would like to study the Market Value of Hebei Yinguang's fixed assets. AVA has thus been engaged by the Company to perform a desktop analysis of the Market Value of the fixed assets belonging to Target as at Valuation Date. No site visit or inspection of the fixed assets has been conducted for this exercise.

AVA has been mandated to estimate the Market Value of the following fixed assets belonging to the Target:

- Plant and equipment
- Office equipment
- Motor vehicles
  (together, the "Machinery & Equipment")
- Land use rights
- Buildings and structures
  (together, the "Real Property")

The Target, located in Hebei Province, China, manufactures explosive-grade ammonia nitrate for domestic sale and export. The manufacturing line, which has a 70,000 ton/year planned capacity, has been idle since 2015, and another 60,000 ton/year capacity expansion has been pending as well.

Our valuation and report is prepared in accordance with the International Valuation Standards (2011 edition) as published by the International Valuation Standards Council and guidelines as provided by the Royal Institution of Chartered Surveyors. The procedures used in our analysis included such substantive steps, as we considered necessary, including, but not necessarily limited to, the following:

- Discussions with appropriate individuals concerning operational, conditional aspects and maintenance of the identified assets;
- Development of valuation model to estimate, on a desktop basis, the Market Value of the identified assets, including gathering market and industry information in support of various assumptions;
- Discussions with management to:
  - Understand in more detail the identified assets, including its characteristics; and
  - Gain a more thorough understanding of the nature and operations of the Target, including historical and estimated trends, services, and markets;
- Review of historical financial information for the Target; and
- Valuation of the identified Machinery & Equipment and Real Property.

As part of our due diligence, we relied upon documents supplied and representations made by the Company. All documents have been used for reference only. We assumed that the data we obtained in the course of the valuation, along with the opinions and representations provided to us by the Target and the Company are true and accurate. We also used other information obtained from private and public sources we considered reliable, and our conclusions are dependent on such information being complete and accurate in all material respects.

Valuation Theory

It is important to note that market value is based on the economic theory of equilibrium price in a perfect market. It may not be equal to the price transacted for an asset or indicative of the price to be transacted for the asset. Such value estimate is based on the assumption that a perfectly competitive market exists where no participant has any influence on the price of the asset it buys or sells. It is simply a point where market demand is equal to market supply, thus ensuring that the asset owner will receive only normal profit in the long run.

Our approach in valuing the identified asset relies on using the appropriate techniques to arrive at our conclusion of value. We considered the three generally recognized approaches to value: the income, market and cost approaches.

An overview of the three approaches considered is as follows:

- The *Income Approach* focuses on the income-producing capability of a business or asset. The income approach measures the current value of a business or asset by calculating the present value of its future economic benefits such as cash earnings, cost savings, tax deductions, and proceeds from disposition. Value indications are developed by discounting expected cash flows to their present value at a rate of return that incorporates the risk-free rate for the use of funds, the expected rate of inflation, and risks associated with the particular investment. The discount rate selected is generally based on rates of return available from alternative investments of similar type and quality as of the valuation date.
- The *Market Approach* measures the value of a business or asset through an analysis of recent sales or offerings of comparable businesses or assets. In estimating the value of a business under the market approach there are two methodologies: the publicly-traded guideline company methodology and the recent transaction methodology. The publicly traded guideline company methodology develops an indication of value for the subject company by calculating market pricing multiples for selected publicly-traded guideline companies and applying these multiples to the appropriate financial measures of the subject company. The recent transaction methodology develops an indication of value for the subject company by calculating market pricing multiples based on actual acquisitions of similar businesses and applying these multiples to the appropriate financial measures of the subject company. After deriving a value, adjustments are then made to account for differences between the subject business or asset being valued and the comparable businesses or assets used in the analysis.
- The *Cost Approach* measures the value of a business or asset by the cost to reconstruct or replace it with another of like utility. To the extent that the assets being valued provide less utility than new assets, the reproduction or replacement cost new would be adjusted to reflect appropriate physical deterioration, functional obsolescence, and economic obsolescence. The cost approach recognizes that a prudent investor would not ordinarily pay more for property or an asset than the cost to replace them new.

Application to the Machinery & Equipment
The valuation of the Machinery & Equipment relied on both the market and cost approaches. However, due to very limited information of second hand market are available, we have mainly relied on cost approach.

Considerations were given to the following:

- Current prices for similar used equipment in the second hand market;
- Current cost new of the assets;
- Accrued depreciation; and
- Age, condition, past maintenance and present and prospective serviceability in comparison with new units of like kind.

Application to the Real Property
The Direct Comparison Approach was adopted for the valuation of the subject site; and Cost Approach for the improvements (including buildings and structures).

'Depreciated Replacement Cost'
Depreciated Replacement Cost is based on an estimate of the Market Value for the existing use of the land, plus the current gross replacement (reproduction) costs of the improvements, less allowances for physical deterioration and all relevant forms of obsolescence and optimization.

'Direct Comparison Approach'
The Direct Comparison Approach is universally considered the most accepted valuation approach for valuing most forms of real estate. This involves the analysis of recent market sales evidence of similar properties to compare with the premises under valuation. Each comparable is analyzed on the basis of its unit rate; each attribute of the comparable is then compared with the subject and where there is a difference, the unit rate is adjusted in order to arrive at the appropriate unit rate for the subject. This is done by making percentage adjustments to the unit rate for various factors, such as location within the city, size, configuration, access, and so on.

Valuation Methodolgy

Machinery & Equipment
The Machinery & Equipment are located in Chenlin, Linxi County, Hebei Province of the People's Republic of China. They comprise of recycling systems, ammonia synthesizing equipment, methanol producing equipment, gas producers and storage tanks, electrostatic anti-tar systems, anti-carbon systems, nitric acid/ammonia nitrate/sodium nitrate/calcium nitrate production systems, piping network with pumps and valves, metal works machines, boiler + power generation/transformers and distribution equipment, products packaging/transport equipment, office equipment and vehicles.

In estimating the Market Value under the premise of continued use, we assumed it to be offered in the open market and considered the following factors:

- The extent, character and utility of the assets;
- The estimated cost to acquire new or construct, or acquire used if comparable property was available, plus the cost to erect or install as an integrated entity;
- From current cost new, a deduction for depreciation, or loss of value, arising from condition, utility, age, wear and tear, obsolescence and lack of improved features of new equipment currently in the market;
- For the cost of comparable used property, a positive or negative adjustment to the market price to reflect the difference in condition and utility between the item under appraisement and its comparable; and
- Dealers' prices for machinery and equipment in operative condition, plus allowances for freight and installation.

The term "current cost new" as used herein is defined as the amount required to reproduce or replace in like kind and new condition an asset, or group of assets, taking into account current costs of materials and labour and including all attendant costs associated with its acquisition.

For the purposes of this engagement, we did not investigate any financial data pertaining to the present or prospective earning capacity of the operation in which the appraised assets are used. It was assumed that prospective earnings would provide a reasonable return on the appraised value of the assets, plus the value of any assets not included in the appraisal, and adequate net working capital.

Our valuation is based on a desktop analysis and we did not carry out a full mechanical survey, nor inspected machinery and equipment which are covered, unexposed or inaccessible. Our assessment is based on the premise that the items are in a condition commensurate with age and usage.

We have relied to a considerable extent on information such as machinery and equipment list, and when available to us, equipment specifications, drawings, contract invoices and other documents furnished to us by the Company.

We have not investigated the title or any liabilities affecting the machinery and equipment appraised. No consideration was made for any outstanding amount owed under financing agreements, if any.

<u>Application to the Real Property</u>
The Real Property under consideration comprises an industrial facility located at Chenlin, Linxi County, Hebei Province of the People's Republic of China. It is formed by 2 adjoining parcels of land (the "Land Parcel"), plus buildings and various ancillary structures currently erected on the Land Parcel to facilitate production.

According to two State-owned Land Use Right Certificates, Lin Tu (2006) Nos. 2006298 and 2006299, the Land Parcel consists of a total site area of approximately 102,836.40 square metres. The usage is for production and trading purposes. Lease term of the said Land Parcel is 48 years, expiring in April 2055.

As per our on-site inspection in September 2013, buildings and structures erected thereon included warehouses, main office and production workshops. According to the information supplied to us, Village / Town Building Ownership Certificate ("BOC"), No. 6985, the total registered gross floor area of the buildings and structures amount to 18,012.63 square metres.

We did not visit the Target's premises for this exercise. As such, we did not conduct site surveys or site investigations, as these do not form part of our terms of reference and therefore we cannot report that the subject property is free from rot, infestation or any other structural defects. We did not carry out a building or land survey, and we assume that the subject property is in a fair state of repair and condition. No tests have been carried out to any of the building services.

In arriving at our opinion of the Market Value of the subject facility, the property is valued on the basis of its "Depreciated Replacement Cost". We have adopted the Direct Comparison Approach for the valuation of the subject site; and Cost Approach for the improvements (including buildings and structures).

Conclusion of Value

Based on the information provided and the analysis conducted, and subject to the attached Statement of General Assumptions and Limiting Conditions, we are of the opinion that, as at Valuation Date, the Market Value of the fixed assets, in its existing state, is in the order of:

Machinery & Equipment

		Market Value (RMB)
Production Equipment		4,310,300
Motor Vehicles		270,000
Office Equipment		415,700
		4,996,000
Work-in-Progress		120,000
	TOTAL	**5,116,000**

Real Property

		Market Value (RMB)
Land Parcel		14,191,000
Buildings with BOC		2,756,000
	TOTAL	**16,947,000**

We do not intend to express any opinion on matters which require legal or other specialized expertise or knowledge, beyond what is customarily employed by valuers. Our conclusions assume continuations of prudent management of over whatever period of time that is reasonable and necessary to maintain the character and integrity of the assets valued.

Respectfully submitted,

AVA Associates Limited

Statement of General Assumption and Limiting Conditions

This analysis is subject to the following general assumptions and limiting conditions:

1. No investigation has been made of, and no responsibility is assumed for, the legal description of the property being valued or legal matters, including title or encumbrances. Title to the property is assumed to be good and marketable unless otherwise stated. The property is assumed to be free and clear of any liens, easements, encroachments, and other encumbrances unless otherwise stated.

2. Information furnished by others, upon which all or portions of this valuation is based, is believed to be reliable but has not been verified except as set forth in this report. No warranty is given as to the accuracy of such information.

3. This report has been made only for the purpose stated and shall not be used for any other purpose.

4. Neither AVA nor any individual signing or associated with this report shall be required by reason of this report to give further consultation, provide testimony or appear in court or other legal proceedings unless specific arrangements therefore have been made.

5. No responsibility is taken for changes in market conditions and no obligation is assumed to revise this report to reflect events or conditions, which occur subsequent to the valuation date hereof.

6. The date of value to which the estimate expressed in this report applies is set forth in the beginning of this report. This valuation is valid only for the valuation date indicated. Our analysis is based on the purchasing power of the Chinese Renminbi as of that date.

7. It is assumed that all required licenses, certificates of occupancy, consents, or other legislative or administrative authority from any local, state, or national government, or private entity or organization have been or can readily be obtained or renewed for any use on which the value estimate provided in this report is based.

8. Responsible ownership and competent management are assumed.

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

16 August 2016

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

Dr Lim Seck Yeow	(Non-Executive Chairman)
Sun Bowen	(Managing Director)
Bao Hongwei	(Executive Director and General Manager)
Frankie Manuel Micallef	(Non-Executive Director)
Gregory John Hayne	(Non-Executive Director)
Wee Phui Gam	(Lead Independent Director)
Professor Jiang Rongguang	(Independent Director)

Dear Sirs,

THE PROPOSED DISPOSAL OF THE ENTIRE 100% SHAREHOLDING INTERESTS IN HEBEI YINGUANG CHEMICAL CO., LTD. BY A WHOLLY-OWNED SUBSIDIARY OF FABCHEM CHINA LIMITED

*Unless otherwise defined or the context otherwise requires, all terms used herein have the same meanings as defined in the circular to the shareholders of Fabchem China Limited ("**Shareholders**") dated 16 August 2016 ("**Circular**").*

1. INTRODUCTION

1.1 On 16 June 2016, Fabchem China Limited (the "**Company**", and together with its subsidiaries, the "**Group**") announced that the Company's wholly-owned subsidiary, Shandong Yinguang Technology Co., Ltd. ("**Shandong Yinguang**" or the "**Vendor**") had entered into an equity purchase agreement with Wang Jian (王健) ("**Purchaser**"), pursuant to which the Vendor will dispose of the entire 100% equity interest in Hebei Yinguang Chemical Co., Ltd. ("**Hebei Yinguang**") to Wang Jian (the "**Proposed Disposal**") for a nominal sum of RMB 1.00 (the "**Consideration**"). On 8 August 2016, the Vendor had further entered into a supplemental agreement with Wang Jian to vary the terms in the equity purchase agreement in respect of the Proposed Disposal,

(collectively, the "**Agreement**").

1.2 Hebei Yinguang was acquired by the Group in 2008 and the principal activity of Hebei Yinguang relates to the manufacturing and selling of ammonium nitrate in the People's Republic of China ("**PRC**") under the brand name of "Yinguang Weihe" ("银光卫河"). Ammonium nitrate is a major raw material used primarily for the manufacture of explosives.

1.3 Wang Jian is a director of Hebei Yinguang and has been the general manager in charge of the day-to-day business operations of Hebei Yinguang since 2007.

1.4 The Proposed Disposal is subject to Shareholders' approval at the extraordinary general meeting ("**EGM**") of the Company to be convened as it is considered as a major transaction under Chapter 10 of the Listing Manual.

The Proposed Disposal is **not** deemed an interested person transaction under Chapter 9 of the Listing Manual which requires, *inter alia*, the opinion of an independent financial adviser ("**IFA**") as the Purchaser is not considered as an interested person under Chapter 9 of the Listing Manual. Nonetheless, the Board of Directors of the Company ("**Directors**") has requested for the advice of the IFA on the Proposed Disposal and to opine on whether the Proposed Disposal is on normal commercial terms and not prejudicial to the interests of the Company.

1.5 Provenance Capital Pte. Ltd. ("**Provenance Capital**") has been appointed as the IFA to render an opinion on whether the Proposed Disposal (including the waiver of the Shareholder's Loan) is on normal commercial terms and not prejudicial to the interests of the Company.

This letter ("**Letter**") is addressed to all the Directors of the Company as they are deemed to be independent in respect of the Proposed Disposal and sets out, *inter alia*, our evaluation and opinion on the Proposed Disposal including the waiver of the Shareholder's Loan. This Letter forms part of the Circular to Shareholders which provides, *inter alia*, the details of the Proposed Disposal and the recommendation of the Directors.

2. TERMS OF REFERENCE

We have been appointed as the IFA to advise the Directors in respect of the Proposed Disposal. We are not and were not involved or responsible, in any aspect, of the negotiations in relation to the Proposed Disposal nor were we involved in the deliberations leading up to the decision on the part of the Directors to propose the Proposed Disposal, and we do not, by this Letter, warrant the merits of the Proposed Disposal other than to express an opinion on whether the Proposed Disposal is on normal commercial terms and not prejudicial to the interests of the Company.

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

In the course of our evaluation, we have held discussions with the Directors and Management and/or their professional advisers and have examined and relied on publicly available information collated by us as well as information provided and representations made to us, both written and verbal, by the Directors, the Management and the professional advisers of the Company, including information contained in the Circular and the English version of the equity purchase agreement and the supplemental agreement, collectively referred to as the Agreement in this Letter. We wish to highlight that the Agreement is governed by the laws of the PRC, signed in English and Chinese languages and both versions are binding on the parties. However, in the event of dispute between the two versions, the Chinese version of the Agreement will prevail. We have not independently verified such information or representations, whether written or verbal, and accordingly cannot and do not make any representation or warranty, express or implied, in respect of, and do not accept any responsibility for the accuracy, completeness or adequacy of such information or representations.

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

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

Save as disclosed, we would like to highlight that all information relating to the Proposed Disposal, the Company and the Group that we have relied upon in arriving at our recommendation or advice has been obtained from publicly available information and/or from the Directors and the Management. We have not independently assessed and do not warrant or accept any responsibility as to whether the aforesaid information adequately represents a true and fair position of the financial, operational and business affairs of the Company and/or the Group at any time or as at 3 August 2016, being the Latest Practicable Date as referred to in the Circular.

The scope of our appointment does not require us to conduct a comprehensive independent review of the business, operations or financial condition of the Company and/or the Group, or to express, and we do not express, a view on the future growth prospects, value and earnings potential of the Company and/or the Group after the Proposed Disposal. Such review or comment, if any, remains the responsibility of the Directors and the Management, although we may draw upon their views or make such comments in respect thereof (to the extent required by the Listing Manual and/or deemed necessary or appropriate by us) in arriving at our advice as set out in this Letter. We have not obtained from the Company and/or the Group any projection of the future performance including financial performance of the Company and/or the Group and further, we did not conduct discussions with the Directors and the Management on, and did not have access to, any business plan and financial projections of the Company and/or the Group. In addition, we are not expressing any view herein as to the prices at which the Shares may trade or the future value, financial performance or condition of the Company and/or the Group, upon or after the Proposed Disposal or if the Proposed Disposal is not effected.

We have not made an independent evaluation or appraisal of the assets and liabilities of Hebei Yinguang, the Company and/or the Group (including without limitation, property, plant and equipment). In connection with the Proposed Disposal, the Company had commissioned the independent valuer, AVA Associates Limited ("**Valuer**"), to carry out a desktop valuation of the non-current assets (which comprise the fixed assets) of Hebei Yinguang as at 31 March 2016 ("**Valuation Report**").

We have been furnished with the Valuation Report dated 8 July 2016, a copy of which is attached as Appendix A to the Circular.

We are not experts in the evaluation or appraisal of the assets or business concerned and we have placed sole reliance on the Valuation Report for such asset appraisals and have not made any independent verification of the contents thereof. In particular, we do not assume any responsibility to enquire about the basis of the valuation contained in the Valuation Report or if the contents thereof have been prepared and/or included in the Circular in accordance with all applicable regulatory requirements.

As such, we will be relying on the disclosures and representations made by the Company on the value of the assets and liabilities and profitability of Hebei Yinguang, the Company and/or the Group. We have not been furnished with any such evaluation or appraisal. We have not relied on any financial projections or forecasts in respect of the Group for the purpose of our evaluation of the Proposed Disposal.

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

In rendering our advice and giving our recommendations, we did not have regard to the specific investment objectives, financial situation, tax position, risk profiles or unique needs and constraints of any Shareholder or any specific group of Shareholders. As each Shareholder may have different investment objectives and profiles, we recommend that any individual Shareholder or group of the 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, the Directors nor any other persons 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 Proposed Disposal 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 Directors in connection with their consideration of the Proposed Disposal and their advice to the Shareholders arising thereof. The recommendations made to the Shareholders in relation to the Proposed Disposal remain the responsibility of the Directors.

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

3. INFORMATION ON THE COMPANY AND THE GROUP

3.1 Overview

The Company was incorporated in Singapore in 2004 and is listed on the Mainboard of the SGX-ST on 17 April 2006.

As disclosed in the Company's annual report for the financial year ended 31 March 2016, the Group is one of China's leading manufacturers of initiation systems and the largest boosters and detonating cords producer within a highly regulated industry. The Group's products are used in the mining, energy exploration, hydroelectric and infrastructure construction sectors. Its products can be categorised mainly into (a) explosive devices such as boosters and seismic charges; (b) industrial fuse and initiating explosive devices such as detonating cords and non-electric tubes; (c) industrial detonators such as non-electric detonators and piston non-electric detonators; and (d) explosive-grade ammonium nitrate.

The Group currently has two wholly-owned subsidiaries:

(i) Shandong Yinguang (wholly-owned by the Company) is the pioneer and market leader in the production of boosters in China. It manufactures products listed in (a), (b) and (c) above which are sold under the brand name "Yinguang" ("银光") in China. These products form the core business of the Group; and

(ii) Hebei Yinguang (wholly-owned by Shandong Yinguang) which manufactures explosive-grade ammonium nitrate and are sold under the brand name "Yinguang Weihe" ("银光卫河").

Following the Proposed Disposal, the Company will be left with only one wholly-owned subsidiary, namely Shandong Yinguang.

The Company had explained in Section 2.1 of the Circular that the ammonium nitrate business carried out by Hebei Yinguang is a distinct and separate business from the Group's core initiation systems business carried out under Shandong Yinguang. The manufacture of initiation systems does not require the supply of ammonium nitrate which is used primarily for the production of explosives.

3.2 Financial Information of the Group

3.2.1 Financial Performance of the Group

Set out below is a summary of the audited statement of financial performance of the Group for the financial year ended 31 March 2014 ("**FY2014**"), FY2015 and FY2016 as well as the breakdown of the Group's revenue by operating segments for each of these financial years.

RMB '000	Audited FY2014	Audited FY2015	Audited FY2016
Revenue	**392,990**	**349,770**	**200,398**
Cost of sales	(298,484)	(241,742)	(148,944)
Gross profit	**94,506**	**108,028**	**51,454**
Interest income	665	1,148	910
Other gains	2,279	1,798	1,494
Distribution costs	(28,824)	(27,158)	(19,832)
Administrative expenses	(41,203)	(41,451)	(44,307)
Finance costs	(6,905)	(6,840)	(7,319)
Other losses	(62,916)	(8,936)	(12,487)
Profit/(Loss) before tax from continuing operations	**(42,398)**	**26,589**	**(30,087)**
Income tax expense	(15,145)	(13,517)	(3,736)
Profit/(Loss) from continuing operations, net of tax	**(57,543)**	**13,072**	**(33,823)**

Revenue by operating segments RMB '000	FY2014	FY2015	FY2016
Explosive devices	126,227	142,089	89,004
Industrial fuse and initiating explosive devices	89,505	95,217	59,748
Industrial detonators	91,678	75,100	49,375
Ammonium nitrate	85,101	36,852	1,858
Others	479	512	413
Total revenue	**392,990**	**349,770**	**200,398**

Source: Company's annual reports for FY2015 and FY2016

FY2014 to FY2015

The Group's revenue decreased by 11.0% from RMB 393.0 million in FY2014 to RMB 349.8 million in FY2015 due mainly to a slowdown in the mining activities in China which affected the sales of ammonium nitrate, but was mitigated to a certain extent by growth in sales of explosive devices and industrial fuse and initiating explosive devices. Revenue contributed by sales of ammonium nitrate represented 10.5% of total revenue in FY2015 as compared to 21.7% in FY2014.

Gross profit margin improved by approximately 6.9 percentage points from 24.0% in FY2014 to 30.9% in FY2015 due to the significant reduction in sales of ammonium nitrate, which was the lowest gross margin product segment.

In line with lower sales revenue recorded in FY2015, distribution costs decreased marginally to RMB 27.2 million, while administrative expenses remained relatively stable at RMB 41.5 million.

Overall, the Group's net profit after tax achieved a turnaround of RMB 13.1 million in FY2015 as compared to a loss after tax of RMB 57.5 million in FY2014 which was due mainly to the impairment of the production plant and equipment at Hebei Yinguang of RMB 60.0 million. The impairment was carried out as a result of declining business conditions and projected operating losses for its ammonium nitrate business segment in accordance with the Group's accounting policy.

FY2015 to FY2016

The Group's revenue decreased by 42.7% from RMB 349.8 million in FY2015 to RMB 200.4 million in FY2016 due mainly to continued challenging macro operating environment compounded by regulatory directives in FY2016 due to unrelated incidents which affected the whole industry at large:

- In the second quarter of FY2016, the Group's overseas sales were affected by the temporary closure of ports, namely the Port of Qingdao and the Port of Weihai during September 2015 that was indirectly attributed to the explosions at the unrelated warehouses that were situated in the Port of Tianjin; and

- In the third quarter of FY2016, the Group's production activities were temporarily halted for more than one month as part of the authorities' safety directives due to an unrelated explosion incident at a booster production plant in the Shandong Province.

In addition, revenue from the ammonium nitrate product segment reduced significantly by approximately 95.0% in FY2016 to RMB 1.9 million as drastic business conditions continued to persist in this market segment and Management decided to cease the production of ammonium nitrate since the start of FY2016. Accordingly, revenue contributed by sales of ammonium nitrate represented only 0.9% of total revenue in FY2016 as compared to 10.5% in FY2015, as the Group sold down its inventory of ammonium nitrate.

With the stoppage of production activities which affected its production efficiency, the Group's overall gross profit margin dipped by approximately 5.2 percentage points from 30.9% in FY2015 to 25.7% in FY2016 even though there was a significant reduction in sales of ammonium nitrate, as ammonium nitrate products accounted for the lowest gross margin product segment.

Corresponding to lower sales revenue recorded in FY2016, distribution costs decreased by 27.0% to RMB 19.8 million in FY2016.

However, as a result of the much lower gross profit achieved in FY2016 and the relatively fixed operating costs and administrative expenses including financing costs, overall, the Group recorded a loss after tax of RMB 33.8 million in FY2016 compared to a profit after tax of RMB 13.1 million in FY2015.

*1st quarter ended 30 June 2016 ("**1Q2017**")*

Subsequent to the Latest Practicable Date, the Company announced its 1Q2017 results and reported a loss after tax of RMB 11.8 million for the Group compared to profit after tax of RMB 7.1 million for the 1st quarter ended 30 June 2015 ("**1Q2016**"). This was due mainly to a continued challenging business environment and a decrease in sales across all of its product segments, which resulted in total revenue decreasing to RMB 32.5 million in 1Q2017 as compared to RMB 86.6 million in 1Q2016. In particular, sales from the Group's explosive devices only recorded a revenue of RMB 2.2 million in 1Q2017 compared to RMB 45.5 million in 1Q2016 as the boosters production only resumed on 26 May 2016. Revenue from the ammonium nitrate product segment accounted for only RMB 67,000 in 1Q2017 as compared to RMB 983,000 in 1Q2016 due to the cessation of production since the start of FY2016.

3.2.2 Financial Position of the Group

The audited statement of financial position of the Group as at 31 March 2016 is set out below:

RMB '000	Audited As at 31 March 2016
Non-current assets	
Property, plant and equipment	223,197
Land use rights	89,083
Deferred tax assets	7,514
Current assets	
Inventories	41,820
Trade and other receivables, current	60,320
Other assets, current	21,640
Cash and cash equivalents	121,036
Total assets	**564,610**
Non-current liabilities	
Deferred tax liabilities	2,365
Current liabilities	
Trade and other payables, current	101,920
Other financial liabilities, current	83,663
Other liabilities, current	8,608
Total liabilities	**196,556**
Equity	
Share capital	116,849
Retained earnings	162,333
Other reserves	88,872
Total equity / Net asset value ("NAV")	**368,054**

Source: Company's annual report for FY2016

As at 31 March 2016, the total assets of the Group of RMB 564.6 million comprised mainly property, plant and equipment (RMB 223.2 million or 39.5% of total assets), cash and cash equivalents (RMB 121.0 million or 21.4% of total assets), land use rights (RMB 89.1 million or 15.8% of total assets) and trade and other receivables (RMB 60.3 million or 10.7% of total assets).

The total liabilities of the Group amounted to RMB 196.6 million consisting substantially of trade and other payables (RMB 101.9 million or 51.9% of total liabilities) and other financial liabilities (RMB 83.7 million or 42.6% of total liabilities).

Accordingly, the Group's NAV as at 31 March 2016 was RMB 368.1 million. As the Group does not have any intangible assets, the net tangible assets ("**NTA**") of the Group is the same as its NAV.

In comparison, Hebei Yinguang has a net liability of RMB 59.5 million as at 31 March 2016. Highlight on the financial information on Hebei Yinguang is set out in Section 5 of this Letter.

The profile of the Group's unaudited balance sheet as at 30 June 2016 is similar to the audited balance sheet of the Group as at 31 March 2016, except that the NAV of the Group had decreased to RMB 356.4 million due mainly to the losses after tax incurred in 1Q2017. NTA of the Group is the same as its NAV as at 30 June 2016 as the Group does not have any intangible assets.

4. SALIENT TERMS OF THE PROPOSED DISPOSAL

Details of the Proposed Disposal are set out in Section 2.5 of the Circular. The salient terms of the Proposed Disposal are set out below:

4.1 Proposed Disposal

Pursuant to the Agreement, the Proposed Disposal involves the disposal of the Group's entire 100% interest in Hebei Yinguang to Wang Jian. Wang Jian is a director and the General Manager of Hebei Yinguang.

Upon completion of the Proposed Disposal, Hebei Yinguang will cease to be a subsidiary of Shandong Yinguang and of the Group.

4.2 Consideration

The Consideration for the Proposed Disposal is a nominal amount of RMB 1.00 in cash.

The Consideration was arrived at on a willing buyer-willing seller basis after taking into account (i) the net liability position of Hebei Yinguang as at 31 March 2016 of approximately RMB 59.5 million; (ii) losses of Hebei Yinguang since FY2013; (iii) factors such as Hebei Yinguang having ceased production operations and still requiring substantial financial support to fund fixed operating costs and administrative expenses including financing costs; and (iv) despite numerous attempts to negotiate with and procure a prospective third party purchaser for the disposal of Hebei Yinguang, the Company was unable to do so under the current unfavourable market conditions.

Hebei Yinguang is already in a net liability position of RMB 59.5 million as at 31 March 2016 which includes the amount owing from Hebei Yinguang to the Group ("**Shareholder's Loan**") of RMB 32.7 million. With the waiver of the Shareholder's Loan as at 31 March 2016, the net liability position of Hebei Yinguang will be reduced to RMB 26.8 million. To facilitate the Proposed Disposal, the Company will have to waive the Shareholder's Loan as otherwise the Company will not be able to find any buyer who will take up such liabilities.

4.3 Conditions precedent, representations and undertakings

Completion of the Proposed Disposal is subject to, *inter alia*, the approval of the Shareholders at the forthcoming EGM and the waiver of the Shareholder's Loan.

Pursuant to the terms of the Agreement, Wang Jian acknowledges that Hebei Yinguang has existing bank loans of approximately RMB 30.0 million in aggregate and he shall bear all liabilities for the repayment of the said bank loans and interests on such loans with effect from 1 September 2016. The long-stop date for the completion of the Proposed Disposal is 30 September 2016 or such other date that the parties to the Agreement may mutually agree in writing.

In addition, Wang Jian, among other things, undertakes, represents and warrants to the Vendor that, *inter alia*, he shall not and shall procure Hebei Yinguang not to dispose of all or any part of the equity interest in Hebei Yinguang or any part of Hebei Yinguang's businesses and assets, within a period of six months after the completion date, without the prior written consent of the Vendor; and he shall not transfer the beneficial or controlling interest (whether direct or indirectly) of Hebei Yinguang to the Directors and/or controlling shareholders of the Company or their respective nominees or associates after the completion date of the Proposed Disposal.

5. INFORMATION ON HEBEI YINGUANG

Details of the Hebei Yinguang are set out in Section 2 of the Circular. Salient information on Hebei Yinguang is set out below.

5.1 Information on Hebei Yinguang

Hebei Yinguang was incorporated in the PRC on 1 February 2007 with a registered capital of RMB 9,000,000, and its registered office is at Chenlin, West of Linxi County, Linxi County, Hebei Province of the PRC. As at the Latest Practicable Date, the Company's Managing Director, Sun Bowen, is the legal representative of Hebei Yinguang.

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

Hebei Yinguang owns a manufacturing facility with a total land area of approximately 103,000 square metres and a built-up area of 20,450 square metres, and an annual production capacity of approximately 70,000 tonnes. Hebei Yinguang has ceased its production of ammonium nitrate since the start of FY2016 due to weak market conditions and a fall in demand and prices for the product. The prevailing market prices of ammonium nitrate have deteriorated to such an extent that they are lower than the production costs. In other words, Hebei Yinguang incurs a loss for every tonne of ammonium nitrate it produces based on the prevailing market prices. Accordingly, Hebei Yinguang did not renew its ammonium nitrate production licence and allowed the latter to lapse and expire in June 2015. Should market conditions improve, Hebei Yinguang can re-apply for the said licence and resume production of ammonium nitrate.

Notwithstanding that it has ceased production operations, Hebei Yinguang currently still maintains a headcount of approximately 180 employees and incurs fixed operating costs and administrative expenses including financing costs.

Acquisition of Hebei Yinguang in 2008

The Group had acquired Hebei Yinguang from Shandong Yinguang Chemical Group Co., Ltd ("**SYCG**") in 2008 at the consideration of RMB 30.23 million, represented by the registered capital of RMB 9 million and shareholder's loan from SYCG of RMB 21.23 million. At the time of the above acquisition, the shareholder's loan from SYCG was assigned to the Group on the completion date. As such, the shareholder's loan was assumed by the Group and resulted in the same amount being owed by Hebei Yinguang to the Group. This means that SYCG would be repaid its shareholder's loan upon the sale of Hebei Yinguang to the Group.

Following from the above, the Group had invested RMB 30.23 million in Hebei Yinguang through its investment in the registered capital of Hebei Yinguang of RMB 9 million and shareholder's loan to Hebei Yinguang of RMB 21.23 million. Subsequent to the above acquisition and up to the Latest Practicable Date, the Group had further extended Shareholder's Loan of another RMB 12.09 million. The total Shareholder's Loan extended to Hebei Yinguang amounted to RMB 33.32 million as at the Latest Practicable Date.

The Company's controlling Shareholder and Managing Director, Mr Sun Bowen, is a director of SYCG and owned 62.4% of SYCG at the time of the above acquisition. Mr Bao Hongwei, an Executive Director of the Company and a 4.8% Shareholder of the Company, is also a director of SYCG and owned 6.0% of SYCG at the time of the above acquisition. As the acquisition of Hebei Yinguang by the Group from SYCG was deemed an interested person transaction, the acquisition of Hebei Yinguang was subject to Shareholders' approval at an EGM and the opinion of the IFA.

We wish to state that Provenance Capital was appointed as the IFA to the then independent directors of the Company for the acquisition of Hebei Yinguang in 2008. Our IFA letter and opinion was set out in the circular to shareholders of the Company dated 29 August 2008.

The above acquisition in 2008 was approved by Shareholders of the Company at its EGM on 22 September 2008.

Following the disposal of Hebei Yinguang by SYCG to the Group, SYCG does not have any interest in Hebei Yinguang. As at the Latest Practicable Date, Mr Sun Bowen and Mr Bao Hongwei are still directors and shareholders of SYCG.

5.2 Financial Information on Hebei Yinguang

5.2.1 Financial Performance of Hebei Yinguang

A summary of the unaudited statement of financial performance of Hebei Yinguang for FY2014, FY2015 and FY2016 is set out below:

RMB '000	Unaudited FY2014	Unaudited FY2015	Unaudited FY2016
Revenue	85,101	36,852	2,007
Cost of sales	(84,225)	(36,915)	(1,615)
Gross profit / (loss)	876	(63)	392
Interest income	420	716	530
Financial costs	(2,253)	(2,497)	(3,539)
Distribution costs	(4,872)	(3,212)	(271)
Administrative costs	(6,897)	(6,776)	(5,475)
Other charges	(60,261)	(6,426)	-
Loss before taxation	(72,987)	(18,258)	(8,363)
Taxation	(1,081)	1,790	26
Loss after taxation	**(74,068)**	**(16,468)**	**(8,337)**

Source: The Company

Hebei Yinguang had recorded declining revenue and significant loss after tax from FY2014 to FY2016 as a result of a slowdown in China's economy, softening of global commodity prices and weakening market conditions for its ammonium nitrate business. The various factors affecting the financial performance of Hebei Yinguang's ammonium nitrate business are also described in Section 3.2.1 of this Letter.

FY2014 to FY2015

Revenue decreased by RMB 48.2 million or 56.7% from RMB 85.1 million in FY2014 to RMB 36.9 million for FY2015. It was highlighted in the Company's FY2015 annual report that its explosive-grade ammonium nitrate business segment continued to face challenging business environment as market-driven selling prices of ammonium nitrate and sales volume further deteriorated. To mitigate the financial impact, the Group controlled and limited the production and sales of its ammonium nitrate product in FY2015 which resulted in the significant decline in revenue.

While revenue has reduced significantly in FY2015, Hebei Yinguang continued to incur significant operating expenses and financial costs. Administrative costs amounted to RMB 6.9 million in FY2014 and RMB 6.8 million in FY2015. Financial costs amounted to RMB 2.3 million in FY2014 and RMB 2.5 million in FY2015 respectively in relation to its bank borrowings and related trade facilities.

In FY2014, due to the drastic business conditions and projected operating losses for the ammonium nitrate business segment, the production plant and equipment at Hebei Yinguang was impaired by RMB 60.0 million in FY2014. The construction of the Group's new explosive-grade ammonium nitrate production facilities was also halted during FY2014. As a result, Hebei Yinguang incurred significant loss after tax of RMB 74.1 million in FY2014.

For FY2015, loss after tax was reduced to RMB 16.5 million due mainly to the absence of one-off impairment charges on its assets incurred in FY2014, but Hebei Yinguang incurred impairment charges on its trade receivables of RMB 3.3 million and licences & customer relationships of RMB 3.1 million due to continued weak performance and the Management does not expect to recover economic benefits from the licences and customer relationships.

After excluding the one-off impairment charges as illustrated in the table below, Hebei Yinguang still incurred adjusted loss after tax of RMB 13.8 million for FY2014 and RMB 10.0 million for FY2015.

RMB '000	FY2014	FY2015	FY2016
Loss after taxation	(74,068)	(16,468)	(8,337)
Add: one-off impairment charges	60,261	6,426	-
Adjusted loss after taxation	**(13,807)**	**(10,042)**	**(8,337)**

FY2015 to FY2016

Hebei Yinguang ceased its production of ammonium nitrate since the start of FY2016 due to continued weak market conditions and a fall in demand and prices for the product. The prevailing market prices of ammonium nitrate have deteriorated to such an extent that they are lower than the production costs.

Accordingly, revenue for FY2016 was reduced to RMB 2.0 million as Hebei Yinguang sold down its inventory. However, Hebei Yinguang continued to incur significant operating expenses and financial costs – financial costs was RMB 3.5 million and administrative costs was RMB 5.5 million in FY2016 – resulting in a loss after tax of RMB 8.3 million for FY2016.

1Q2017

Pursuant to the Company's results announcement for 1Q2017, we note that revenue from the ammonium nitrate product segment accounted for only RMB 67,000 in 1Q2017 as compared to RMB 983,000 in 1Q2016 due to the cessation of production since the start of FY2016. As disclosed in Section 3.2 of the Circular, Hebei Yinguang incurred a loss before tax of RMB 2.9 million for 1Q2017.

5.2.2 Financial Position of Hebei Yinguang

RMB '000	Unaudited As at 31 March 2016
Property, plant & equipment	6,747
Land use rights	10,890
Total non-current assets	**17,637**
Trade receivables	4,040
Other receivables	9,330
Inventories	2,029
Cash and bank balances	30,102
Current assets	**45,501**
Total assets	**63,138**
Deferred tax liabilities	990
Total non-current liability	**990**
Trade payables	19,047
Bills payables (Bank trading facilities)	30,000
Other payables	1,756
Bank loan	29,991
Due to Shandong Yinguang Technology Co., Ltd	32,656

RMB '000	Unaudited As at 31 March 2016
Due to Linxi County Nitrogenous Fertilizer Co., Ltd. – Third party	8,172
Total current liabilities	**121,622**
Total liabilities	**122,612**
Issued capital	9,000
Other reserve	1,161
Accumulated losses	(69,635)
Total equity / Net liabilities	**(59,474)**

Source: The Company

Analysis of the assets of Hebei Yinguang

As at 31 March 2016, the total assets of Hebei Yinguang comprised mainly the non-current assets represented by the property, plant & equipment ("**PPE**"), and land use rights totalling RMB 17.6 million (representing 27.9% of total assets) and cash and bank balances of RMB 30.1 million (representing 47.7% of total assets).

The above PPE is the remaining amount after the impairment of RMB 60.0 million in FY2014. The cash and bank balances are used as deposit security for the trade facilities for the bills payables.

Independent valuation of the non-current assets

In connection with the Proposed Disposal, the Company had commissioned the Valuer to carry out an independent valuation on the non-current assets (comprising the fixed assets relating to the PPE and the land use rights) of Hebei Yinguang to determine the market value of these non-current assets ("**Market Value**") as at 31 March 2016.

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

The Valuation Report is set out in Appendix A to this Circular.

The Valuer had considered the three generally recognised approaches to value, namely the income approach, market approach and cost approach.

For the machinery and equipment (including plant and equipment, office equipment and motor vehicles), the Valuer has mainly relied on the cost approach as there is very limited available information on the second hand market to rely on the market approach.

For the real property (including land use rights, buildings and structures), the property is valued on the basis of its depreciated replacement cost. The Valuer has adopted the direct comparison approach for the valuation of the site and cost approach for the improvements (including buildings and structures).

Based on the above, the Valuer is of the opinion that the Market Value of the non-current assets as at 31 March 2016 is an aggregate sum of RMB 22,063,000.

As at 31 March 2016, the net book value of the non-current assets was RMB 17,637,000. Accordingly, the revaluation surplus arising from the valuation of the non-current assets is RMB 4,426,000.

The breakdown of the net book value, market valuation and revaluation surplus is shown below:

RMB '000	Net book value as at 31 March 2016	Market valuation as at 31 March 2016	Revaluation surplus
PPE	6,747	7,872	1,125
Land use rights	10,890	14,191	3,301
Total	**17,637**	**22,063**	**4,426**

In assessing the above revaluation surplus, we have also considered whether there is any potential tax liability arising from the revaluation surplus if these non-current assets were to be sold hypothetically. In this respect, Management has expressed that it is highly unlikely that the non-current assets will be sold separately from the business as they are an integral part of the business. In any case, Management believed that the potential tax liability on the revaluation surplus, if any, will not be significant.

Save for the above, Management has confirmed that there are no other tangible assets of Hebei Yinguang which should be valued at an amount that is materially different from that recorded in the books of Hebei Yinguang as at 31 March 2016.

Analysis of the liabilities and equity of Hebei Yinguang

The main liabilities of Hebei Yinguang are the bills payable, bank loan and the Shareholder's Loan.

As at 31 March 2016, bills payable of RMB 30.0 million represented approximately 24.5% of total liabilities. The bills payable is secured by the cash balances. As at the Latest Practicable Date, the cash and bank balances has been utilized to repay the bills payables. Trade facilities granted by the bank has ceased in June 2016 due to the continued poor market conditions and no foreseeable resumption of trading of ammonium nitrate.

Bank loan of RMB 30.0 million represented approximately 24.5% of total liabilities. The bank loan is secured by the land use rights of RMB 10.9 million and a corporate guarantee by SYCG as the guarantor, and bears interest at the rate of 6.955% per annum. SYCG is not a member of the Group but is related to the controlling shareholder of the Company and the two Directors of the Company, namely Mr Sun Bowen and Mr Bao Hongwei as disclosed in Section 5.1 of this Letter. As such, the Proposed Disposal will not affect any of the remaining secured loans of the Group or guarantees provided by the Group.

The Management has represented that save for Hebei Yinguang's loans, the Group has no bank loans that are secured on the assets or shares of Hebei Yinguang as collateral. As such, the Proposed Disposal will not affect any of the remaining secured loans of the Group.

As at 31 March 2016, the Shareholder's Loan of RMB 32.7 million represented approximately 26.6% of total liabilities, is interest-free and is repayable on demand. As part of the terms of the Proposed Disposal, the Group is to waive the Shareholder's Loan.

Hebei Yinguang has a negative working capital of RMB 76.1 million as at 31 March 2016. With the waiver of the Shareholder's Loan, Hebei Yinguang will still have a negative working capital of RMB 43.4 million.

As at 31 March 2016, the registered capital and reserve is over-weighed by the accumulated losses of RMB 69.6 million, resulting in the net liability position of Hebei Yinguang of RMB 59.5 million. As Hebei Yinguang has no intangible assets, the net liability position is the same as the net tangible liability position ("**NTL**"). If the Shareholder's Loan is waived, Hebei Yinguang will still be in an adjusted NTL position of RMB 26.8 million.

*Revalued and adjusted NTL ("**RNTL**") of Hebei Yinguang*

Following from the above analysis of the financial position of Hebei Yinguang and taking into account the revaluation surplus of the non-current assets and the waiver of the Shareholder's Loan, the RNTL of Hebei Yinguang is computed as follows:

	RMB ’million
NTL of Hebei Yinguang as at 31 March 2016	(59.5)
Add: revaluation surplus arising from the valuation of the non-current assets	4.4
Add: waiver of the Shareholder’s Loan	32.7
RNTL of Hebei Yinguang as at 31 March 2016	**(22.4)**

6. EVALUATION OF THE PROPOSED DISPOSAL

In our evaluation of the Proposed Disposal, we have given due consideration to, *inter alia*, the following key factors:

(a) rationale for the Proposed Disposal;

(b) financial terms of the Proposed Disposal;

(c) financial effects of the Proposed Disposal; and

(d) other relevant considerations.

6.1 Rationale for the Proposed Disposal

It is not within our terms of reference to comment or express an opinion on the merits of the Proposed Disposal or the future prospects of the Group after the Proposed Disposal. Nevertheless, we have reviewed the rationale for the Proposed Disposal.

The full text of the rationale for the Proposed Disposal is set out in Section 2.4 of the Circular.

We note that the Company’s rationale for the Proposed Disposal is due to the following key reasons:

(a) Hebei Yinguang has been loss-making for FY2014, FY2015 and FY2016. Due to the slowdown in the economy in China and the weak market conditions for ammonium nitrate, Management is not optimistic of the recovery of the business in the near future;

(b) Hebei Yinguang is in a NTL position of RMB 59.5 million as at 31 March 2016. After taking into consideration the revaluation surplus on the non-current assets and the waiver of the Shareholder’s Loan, Hebei Yinguang will still be in a significant RNTL position of RMB 22.4 million. In the event of a liquidation, as the assets are insufficient to repay all liabilities, the Vendor as the shareholder will rank last, after all the creditors, to receive any distribution;

(c) Hebei Yinguang has ceased production since the start of FY2016. Notwithstanding this, Hebei Yinguang continues to incur fixed operating costs, administrative expenses, and interest expenses on bank loans, totalling approximately RMB 9.3 million in FY2016;

(d) The Group has been funding the operations of Hebei Yinguang. The Proposed Disposal will therefore reduce this financial burden on the Company and the Group’s cash flow and is expected to allow the Company to improve its financial position and hence beneficial to the Group;

(e) The Proposed Disposal will allow the Company to reallocate resources to focus on its existing core businesses and any future business opportunity; and

(f) In view of the financial difficulties of Hebei Yinguang, the Company finds it difficult to find a third party purchaser for Hebei Yinguang, apart from Wang Jian, who is the general manager of Hebei Yinguang since 2007.

6.2 Financial Terms of the Proposed Disposal

In our evaluation of the financial terms of the Proposed Disposal, we have considered the following points:

(a) Rank last in a liquidation situation

As set out in Section 5.2 of this Letter, Hebei Yinguang has been making substantial losses and is in a NTL position of RMB 59.5 million as at 31 March 2016. In such a situation, Hebei Yinguang is technically worth very little, if any, as in a liquidation situation where, assets sold may not be enough to repay all its liabilities and Shandong Yinguang, as the sole shareholder, is ranked last in recouping any remaining value.

(b) Difficulty in finding a third party buyer

Given that Hebei Yinguang has ceased production but still have carrying costs to maintain the entity and the need to service its bank loans, it will be difficult to find a third party purchaser for Hebei Yinguang. Hebei Yinguang has been managed by Wang Jian since 2007. The sale of Hebei Yinguang to Wang Jian is therefore logical and also beneficial to the Group.

(c) Valuation methodologies not applicable

As Hebei Yinguang has ceased production, is loss-making and in a NTL position, we have neither used the earnings approach nor the net asset backing approach in assessing the valuation of the Hebei Yinguang as these valuation methodologies will not be applicable.

- The earnings approach is commonly used for the valuation of a company with profits as a going concern. Such valuation methodology, however, will not be meaningful for a loss-making company which has ceased production.

- The net asset backing approach, which shows the extent to which a company's value is backed by its net assets, is also not relevant as Hebei Yinguang is in a significant NTL position even after the waiver of the Shareholder's Loan.

(d) Revaluation of assets of Hebei Yinguang

We have also considered whether there are any tangible assets of Hebei Yinguang which should be valued at an amount that is materially different from their book values. From our analysis of the balance sheet of Hebei Yinguang, most of the assets comprise working capital except for land use rights on the property which the factory and offices are located.

In connection with the Proposed Disposal, the Company had therefore commissioned an independent valuation of the non-current assets of Hebei Yinguang. These non-current assets include the land use rights and the PPE. Details of the valuation is set out in Section 5.2.2 of this Letter under the caption "*Independent valuation of the non-current assets*".

Based on our analysis set out in Section 5.2.2 of this Letter, the revaluation surplus from the non-current assets is approximately RMB 4.4 million. However, the revaluation surplus is not material enough to reverse the significant NTL position of Hebei Yinguang of RMB 59.5 million as at 31 March 2016.

(e) Waiver of Shareholder's Loan

As at 31 March 2016, the Shareholder's Loan amounted to approximately RMB 32.7 million. As at the Latest Practicable Date, such Shareholder's Loan has increased to RMB 33.3 million.

As Hebei Yinguang is a wholly-owned subsidiary of the Group, in the ordinary course of business, the Group could fund the operations of Hebei Yinguang via paid-up capital or intercompany loans. These intercompany loans could also be interest-free. Upon consolidation of the results of the Group, these intercompany loans and interest, if any, will be eliminated on a group basis. Hence, the Shareholder's Loan could be viewed as a normal funding option in the ordinary course of operation of the Group.

As the intercompany Shareholder's Loan is essentially a result of the business operations being treated as a single business under the umbrella of the Group, the waiver of the intercompany Shareholder's Loan seems reasonable.

(f) Wang Jian's representations and undertakings

Pursuant to the terms of the Agreement, Wang Jian undertakes, represents and warrants to the Vendor that he shall not and shall procure Hebei Yinguang not to dispose of all or any part of the equity interest in Hebei Yinguang or any part of Hebei Yinguang's businesses and assets, within a period of six months after the completion date of the Proposed Disposal, without prior written consent of the Vendor. This is to ensure that the Purchaser will not make a gain by disposing of Hebei Yinguang or any part of the assets shortly after the completion date. Such an undertaking by Wang Jian is for the benefit of the Group.

In addition, Wang Jian acknowledges that Hebei Yinguang has existing bank loans of approximately RMB 30.0 million in aggregate and he shall bear the liabilities for the repayment of the said bank loans and interests on such loans with effect from 1 September 2016. Such a representation is also for the benefit of the Group to ensure that after the completion date of the Proposed Disposal, the Group will not have any continuing responsibility or liability in respect of Hebei Yinguang's bank loans.

6.3 Financial Effects of the Proposed Disposal

Details on the *pro forma* financial effects of the Proposed Disposal on the Company for illustrative purposes are set out in Section 4 of the Circular and are based on the latest audited consolidated financial statements of the Company for FY2016.

In summary, the Proposed Disposal would result in the following financial effects for the Group:

(a) *Loss per share*

As Hebei Yinguang is loss-making, the Group will be relieved of the losses of RMB 8,337,000 for FY2016 after the Proposed Disposal. As a result, the loss per Share of the Group will be lowered from RMB 72.27 cents to RMB 54.46 cents.

(b) *NTA*

Hebei Yinguang is in a NTL position of RMB 26.8 million as at 31 March 2016 after taking into consideration the waiver of the Shareholder's Loan. With the Proposed Disposal at a nominal consideration of RMB 1.00, the Group will be relieved of the NTL of Hebei Yinguang, and hence NTA of the Group will improve by the same amount and NTA per Share will improve from RMB 786.44 cents to RMB 843.74 cents.

(c) *Gearing*

The Group's gearing is expected to improve from 0.23 to 0.12 following the Proposed Disposal as the borrowings of Hebei Yinguang (amounting to RMB 38.2 million as at 31 March 2016) will no longer be consolidated with the Group. Gearing is defined as total external borrowings divided by total equity of the Group.

(d) *Gain arising from the Proposed Disposal*

The Proposed Disposal will give rise to a net gain of approximately RMB 26.8 million for the Group based on the Consideration of RMB 1.00 and the adjusted NTL of Hebei Yinguang after taking into account the waiver of the Shareholder's Loan.

6.4 Other Relevant Considerations

6.4.1 Hebei Yinguang's operation does not impact on the Group's core initiation systems business

The ammonium nitrate business carried out by Hebei Yinguang is a distinct and separate business from the Group's core initiation systems business carried out under Shandong Yinguang. The manufacture of initiation systems does not require a supply of ammonium nitrate which is used primarily for the production of explosives. As such, the Proposed Disposal will not have a material impact on the Group's core business.

6.4.2 The Proposed Disposal as the most appropriate option

Hebei Yinguang is loss-making and is expected to require further cash injections for working capital to restructure or maintain its operations or diversify into other businesses.

Management has expressed that they have considered options including (a) liquidation of Hebei Yinguang, (b) provide more funding to Hebei Yinguang to finance its projects or (c) diversify into new businesses unrelated to the commercial explosives business.

However, Management has also expressed that such options have the following concerns:

- Liquidation may cause social unrest and conflicts with the local authorities. The reason being such liquidation will likely result in the retrenchment of Hebei Yinguang's current staff strength of approximately 180 staff as the Management has no intention to retain any staff in the event of liquidation. The scale of the retrenchment may likely result in the retrenched workers protesting or appealing with the local government authorities which may lead to further conflicts and complications;

- Due to poor market conditions, expected pay-back on further investments in Hebei Yinguang will be uncertain and risky; and

- Diversifying into new businesses will alter the risk profile of the Group which requires further time and deliberation as well as Shareholders' approval.

As a result, the Board believed that the Proposed Disposal is the most appropriate option for the Group.

6.4.3 The Purchaser is the most logical buyer

Given that Hebei Yinguang has ceased production and is in an NTL position, but it still have carrying costs to maintain the entity and the need to service its bank loans, it will be difficult to find a third party purchaser for Hebei Yinguang. In addition, Hebei Yinguang has been managed by Wang Jian since 2007. Therefore, the sale of Hebei Yinguang to Wang Jian is logical and also beneficial to the Group.

7. OUR OPINION

In arriving at our opinion in respect of the Proposed Disposal, we have reviewed and examined all factors which we consider to be pertinent in our assessment, including the following key considerations:

(a) rationale for the Proposed Disposal;

(b) financial terms of the Proposed Disposal;

(c) financial effects of the Proposed Disposal; and

(d) other relevant considerations.

Overall, having considered the above and the information available to us as at the Latest Practicable Date, we are of the opinion that the Proposed Disposal is on normal commercial terms and not prejudicial to the interests of the Company.

Our opinion, as disclosed in this Letter, is based solely on publicly available information and information provided by the Directors and the Management and does not reflect any projections of future financial performance of the Company or the Group after the completion date of the Proposed Disposal. In addition, our opinion is based on the economic and market conditions prevailing as at the Latest Practicable Date and is solely confined to our views on the Proposed Disposal.

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

Our opinion 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.

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

Wong Bee Eng
Chief Executive Officer

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 31 August 2016 at 9.30 a.m. at 2 Bukit Merah Central, Level 1 Drucker/Juran Boardroom, Singapore 159835, for the purpose of considering and, if thought fit, passing with or without any modifications the following resolution:-

ORDINARY RESOLUTION

THAT:-

THE PROPOSED DISPOSAL OF THE ENTIRE EQUITY INTEREST IN HEBEI YINGUANG CHEMICAL CO., LTD BY A WHOLLY-OWNED SUBSIDIARY OF THE COMPANY

(a) approval be and is hereby given for the proposed disposal by Shandong Yinguang Technology Co., Ltd, a wholly-owned subsidiary of the Company, of the entire equity interest in Hebei Yinguang Chemical Co., Ltd, to Wang Jian (王健); and

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

By Order of the Board

Tan Min-Li
Company Secretary

16 August 2016

Notes:-

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

ii. Except for a member who is a Relevant Intermediary as defined under Section 181(6) of the Companies Act, Chapter 50 of Singapore (the "**Companies Act**"), a member entitled to attend and vote at this EGM is entitled to appoint not more than two proxies to attend and vote in his stead.

iii. Where a member appoints more than one proxy, he/she should specify the proportion of his/her shareholding (expressed as a percentage of the whole) to be represented by each proxy. If no percentage is specified, the first named proxy shall be treated as representing 100 per cent of the shareholding and the second named proxy shall be deemed to be an alternate to the first named.

iv. A member who is a Relevant Intermediary is entitled to appoint more than two proxies to attend and vote at this EGM, but each proxy must be appointed to exercise the rights attached to a different shares held by such member. Where such member appoints more than two proxies, the number and class of shares in relation to which each proxy has been appointed shall be specified in the proxy form.

v. If the appointor is a corporation, the proxy must be executed under seal or the hand of its duly authorised officer or attorney.

vi. A Depositor's name must appear on the Depository Register maintained by The Central Depository (Pte) Limited as at 72 hours before the time appointed for holding the EGM in order for the Depositor to be entitled to attend and vote at the EGM.

vii. The instrument appointing a proxy must be deposited at the registered office of the Company at 80 Robinson Road #02-00 Singapore 068898 not less than 48 hours before the time for holding the EGM.

Personal data privacy:

By submitting a proxy form appointing a proxy(ies) and/or representative(s) to attend, speak and vote at the EGM and/or any adjournment thereof, a member of the Company (i) consents to the collection, use and disclosure of the member's personal data by the Company (or its agents) for the purpose of the processing and administration by the Company (or its agents) of proxies and representatives appointed for the EGM (including any adjournment thereof) and the preparation and compilation of the attendance lists, minutes and other documents relating to the EGM (including any adjournment thereof), and in order for the Company (or its agents) to comply with any applicable laws, listing rules, regulations and/or guidelines (collectively, the "**Purposes**"), (ii) warrants that where the member discloses the personal data of the member's proxy(ies) and/or representative(s) to the Company (or its agents), the member has obtained the prior consent of such proxy(ies) and/or representative(s) for the collection, use and disclosure by the Company (or its agents) of the personal data of such proxy(ies) and/or representative(s) for the Purposes, and (iii) agrees that the member will indemnify the Company in respect of any penalties, liabilities, claims, demands, losses and damages as a result of the member's breach of warranty.

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

IMPORTANT:

1. Relevant intermediaries (as defined in Section 181 of the Companies Act, Chapter 50 of Singapore) may appoint more than two proxies to attend, speak and vote at the Extraordinary General Meeting.
2. For CPF/SRS investors who have used their CPF/SRS monies to buy the Company's shares, this Proxy Form is not valid for use by CPF/SRS investors and shall be ineffective for all intents and purposes if used or purported to be used by them. CPF/SRS investors should contact their respective Agent Banks/SRS Operators if they have any queries regarding their appointment as proxies.

PROXY FORM

I/We ______________________________ (Name and NRIC No.)

of ______________________________ (Address)

being a member **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

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 31 August 2016 at 9.30 a.m. at 2 Bukit Merah Central, Level 1 Drucker/Juran Boardroom, Singapore 159835 and at any adjournment thereof. I/We direct my/our proxy/ proxies to vote for or against the Ordinary Resolution to be proposed at the Extraordinary General Meeting as indicated hereunder. If no specific direction as to voting is given, the proxy/proxies will vote or abstain from voting at his/her/their discretion, as he/she/they will on any other matter arising at the Extraordinary General Meeting.

Ordinary Resolution	For*	Against*
The proposed disposal of the entire equity interest in Hebei Yinguang Chemical Co., Ltd to Wang Jian (王健).		

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

Dated this ________ day of ______________ 2016.

Total Number of Shares held in:	Number of Shares
(a) CDP Register	
(b) Register of Members	

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

IMPORTANT PLEASE READ NOTES OVERLEAF BEFORE COMPLETING THIS PROXY FORM

Notes:-

1. Except for a member who is a Relevant Intermediary as defined under Section 181(6) of the Companies Act, Chapter 50 of Singapore (the "**Companies Act**") a member entitled to attend and vote at the Extraordinary General Meeting (the "**EGM**") is entitled to appoint not more than two proxies to attend and vote in his stead. A proxy need not be a member of the Company.

2. Where a member appoints more than one proxy, he/she should specify the proportion of his/her shareholding (expressed as a percentage of the whole) to be represented by each proxy and if no percentage is specified, the first named proxy shall be treated as representing 100 per cent of the shareholding and the second named proxy shall be deemed to be an alternate to the first named.

3. A member should insert the total number of shares held. If the member has shares entered against his name in the Depository Register (as defined in Section 81SF of the Securities and Futures Act, Chapter 289), he should insert that number of shares. If the member has shares registered in his name in the Register of Members of the Company, he should insert the number of shares. If the member has shares entered against his name in the Depository Register and shares registered in his name in the Register of Members of the Company, he should insert the aggregate number of shares. If no number is inserted, this form of proxy will be deemed to relate to all the shares held by the member of the Company.

4. Pursuant to Section 181(1C) of the Companies Act, a member who is a Relevant Intermediaries is entitled to appoint more than two proxies to attend, speak and vote at the EGM provided that each proxy is appointed to exercise the rights attached to different shares held by the member. In such event, the relevant intermediary shall submit a list of its proxies together with the information required in this proxy form to the Company.

5. The instrument appointing a proxy or proxies must be under the hand of the appointor or of his 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 seal or under the hand of an officer or attorney duly authorised. Where the instrument appointing a proxy or proxies is executed by an attorney on behalf of the appointor, the letter or power of attorney or a duly certified copy thereof must be lodged with the instrument.

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 EGM, in accordance with Section 179 of the Companies Act, Chapter 50 of Singapore.

7. The instrument appointing a proxy or proxies, together with the power of attorney (if any) under which it is signed or a notarially certified or office copy thereof, shall be deposited at the registered office of the Company at 80 Robinson Road, #02-00 Singapore 068898 not less than 48 hours before the time appointed for the EGM.

8. 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 EGM. 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 EGM.

9. 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.

10. In the case of members of the Company whose shares are entered against their names in the Depository Register, the Company may reject any instrument appointing a proxy or proxies lodged if such members are not shown to have shares entered against their names in the Depository Register 72 hours before the time appointed for holding the EGM as certified by The Central Depository (Pte) Limited to the Company.

11. An investor who buys shares using CPF monies ("**CPF Investor**") and/or SRS monies ("**SRS Investor**") (as may be applicable) may attend and cast his vote(s) at the EGM in person. CPF and SRS Investors who are unable to attend the EGM but would like to vote, may inform their CPF and/or SRS Approved Nominees to appoint the Chairman of the EGM to act as their proxy, in which case, the CPF and SRS Investors shall be precluded from attending the EGM.

Personal data privacy

By submitting an instrument appointing a proxy(ies) and/or representative(s), the member accepts and agrees to the personal data privacy terms set out in the Notice of EGM dated 16 August 2016.