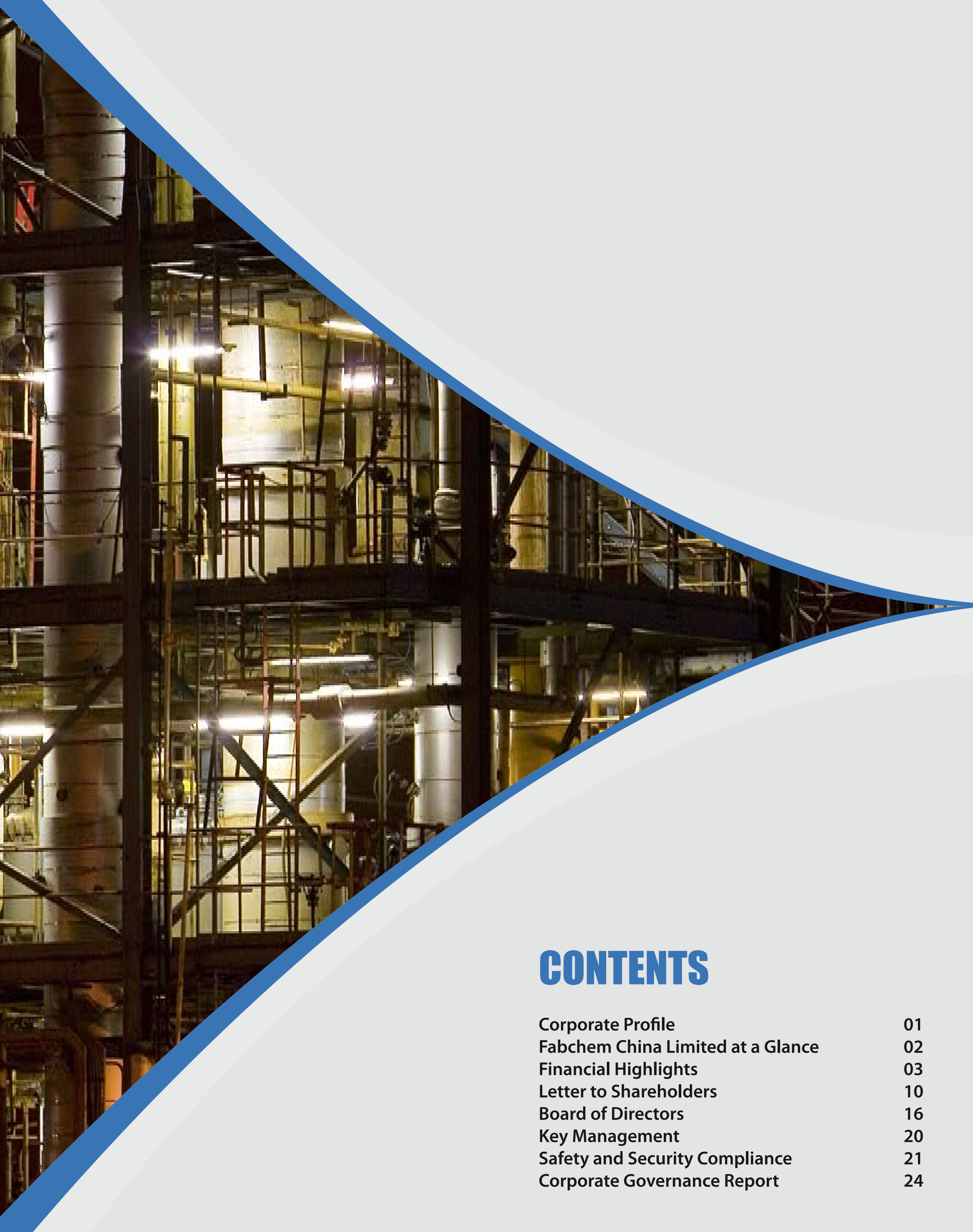
FABCHEM CHINA LIMITED

GROWING FABCHEM CHINA

ANNUAL REPORT 2007



CONTENTS

A LEADING CHINESE COMMERCIAL EXPLOSIVES SPECIALIST

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

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

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

02 / FABCHEM CHINA LIMITED AT A GLANCE

OUR PRODUCTS

The Group's principal business activity is in the production and sale of commercial explosives products, comprising explosive devices, initiators and detonators, both under its own brand name ("Yinguang") and those of third parties. It also provides after-sales services to its customers such as technical assistance related to the detonating activities.

The Group's products are mainly used by the mining, hydroelectric and infrastructure construction industries, for activities such as coal mining, oil exploration, construction of hydroelectric dams, roads and railways, and large construction projects. Its range of products can be broadly categorised as follows:

- Explosive devices, such as boosters, tube charges and seismic charges. Boosters and seismic charges are used to enhance the power of the explosions. Seismic charges are a type of blasting device mainly used in the exploration of oil, natural gas and minerals in the earth using seismic wave refraction method.

- Industrial fuse and initiating explosive devices, such as detonating cords and non-electric tubes. These devices are used to initiate the detonation process.

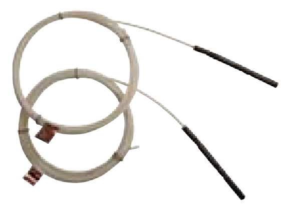
- Industrial detonators, such as non-electric detonators and piston non-electric detonators. These devices are mainly used to initiate explosions, either through boosters or applied directly on the explosives.

BOOSTERS

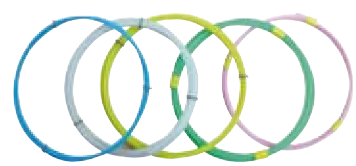
TUBE CHARGES

DETONATING CORDS

SEISMIC CHARGES



NON-ELECTRIC DETONATORS



NON-ELECTRIC TUBES

THE INDUSTRIES WE SERVE

MINING

China has emerged as one of the world's largest importers of many resources and industrial raw materials. China is also the world's largest consumer of aluminum, steel (driving demand for iron-ore and metallurgical coal), stainless steel (driving demand for nickel), copper, zinc, and the world's largest importer of iron-ore. It was the world's second largest oil consumer in 2004. China's ongoing industrialisation and urbanisation will continue to require big inputs of raw resources. Australia is a competitive exporter of resources and is very well placed to respond to China's needs.

Source: Australia-China Free Trade Agreement 2006

OIL & GAS EXPLORATION

Crude oil and natural gas remain the most important source of energy that powers the world. In China, natural gas is used for electric power generation and residential use with expectation of environmental relief by replacing coal. From 2006, Australia also will begin exporting up to A$1 billion of liquefied natural gas (LNG) to the Guangdong LNG project annually, over a 25 year period - with good prospects for further large-scale energy deals in the near future.

Source: Natural Gas in China, 2003 and Australia-China Free Trade Agreement 2006

DAM CONSTRUCTION

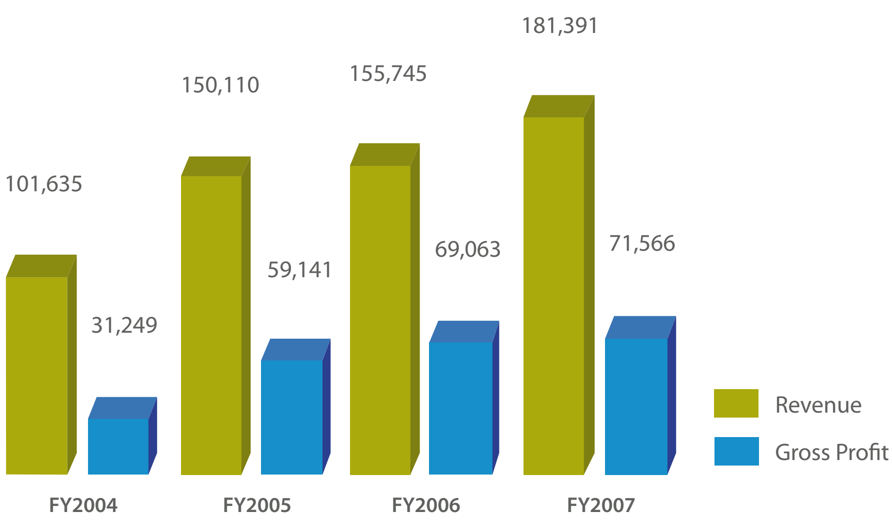
Hydroelectricity is the world's most important renewable energy source, accounting for over 63% of the total in 2005. China's ongoing industrialisation and urbanisation will continue to require big inputs of energy. As most of China's power plants are thermal-powered, which heavily pollute the environment, the potential for hydroelectricity projects in China is enormous.

Source: Renewable Global Status Report 2006 Update, REN21

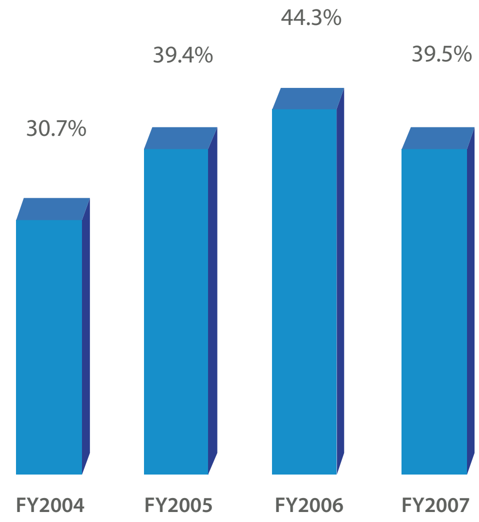
FINANCIAL HIGHLIGHTS

	FY2004 PROFORMA RMB' 000	FY2005 PROFORMA RMB' 000	FY2006 ACTUAL RMB' 000	FY2007 ACTUAL RMB' 000
GROUP REVENUE	101,635	150,110	155,745	181,391
GROSS PROFIT	31,249	59,141	69,063	71,566
PROFIT FROM OPERATIONS	22,304	49,784	55,018	45,456
(before finance cost and income tax expense)				
NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS	12,010	35,065	54,081	42,206
EARNINGS PER SHARE [cents]	5.04	20.04	30.90	18.24

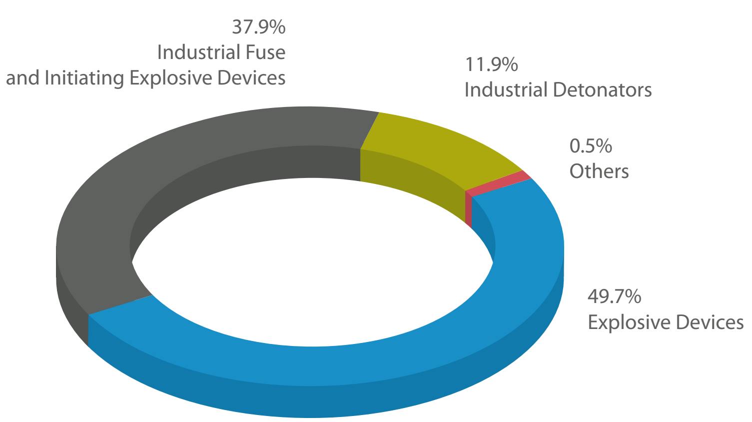
REVENUE & GROSS PROFIT
RMB'000



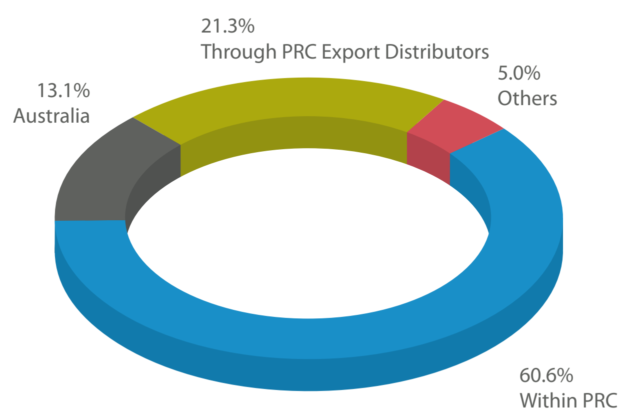
GROSS PROFIT MARGIN



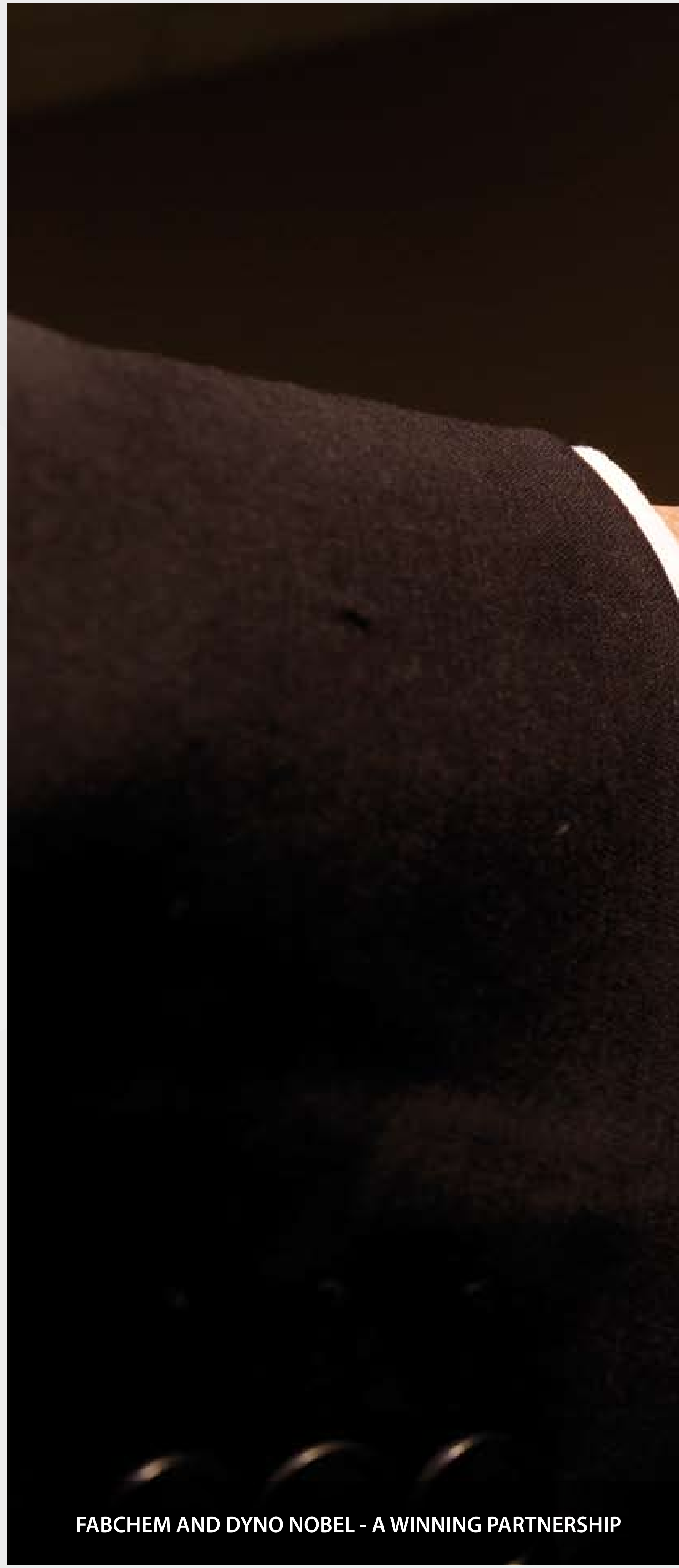
REVENUE BREAKDOWN
by Products in FY2007



REVENUE BREAKDOWN
by Geographical Regions in FY2007



The strategic alliance with Dyno Nobel, one of the world's leading full service explosives companies, provides Fabchem with valuable customer and distribution network synergies and a platform for growth.



FABCHEM AND DYNO NOBEL - A WINNING PARTNERSHIP

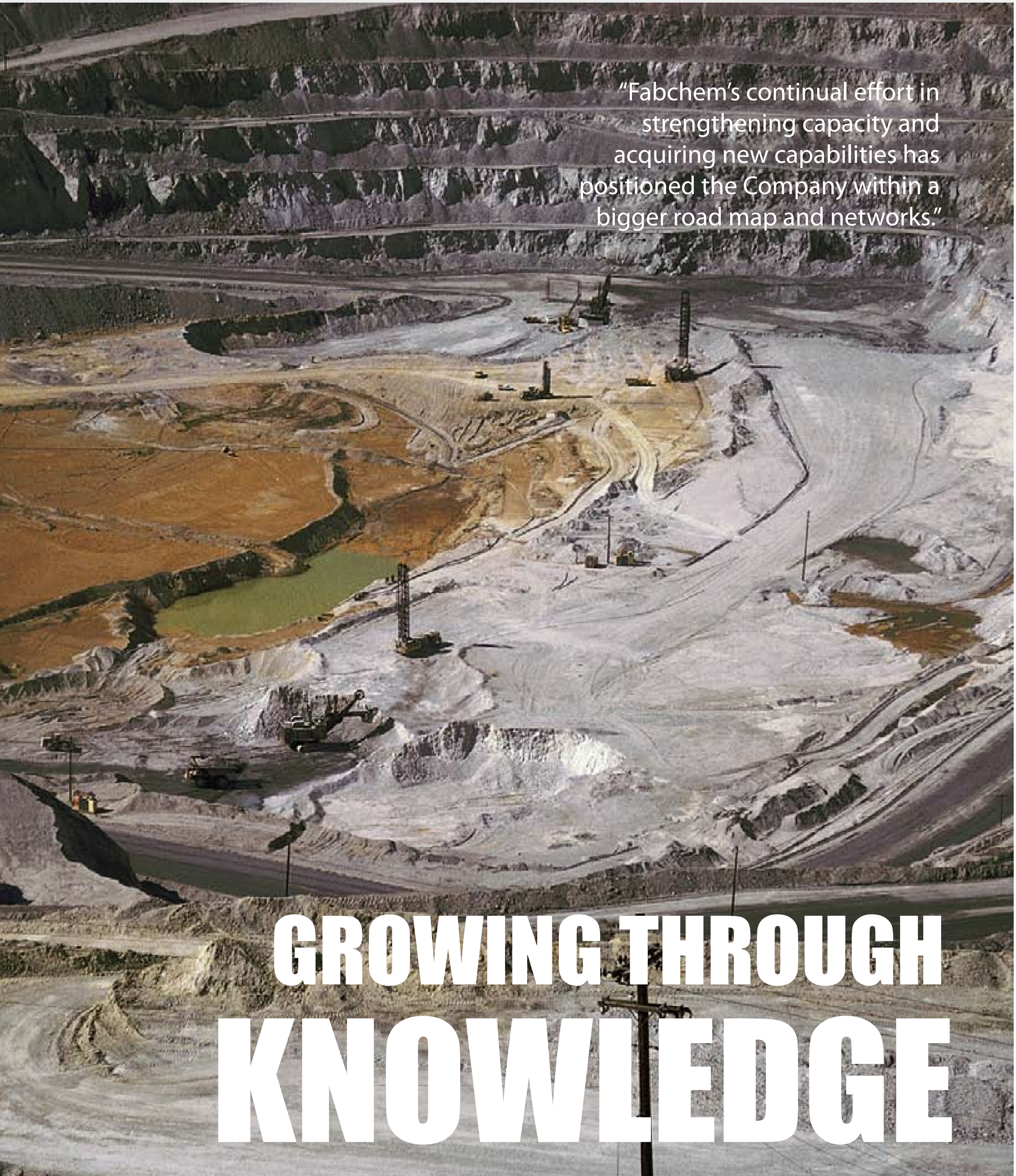
“The partnership with Dyno Nobel, a leading global explosives company, provides Fabchem the opportunity to expedite and enhance growth and value. Through the manufacture and distribution of explosives in the fast growing Chinese market and other regions, the Group will also be looking forward to solidifying its leadership.”

GROWING THROUGH PARTNERSHIP

Next in the pipeline, are acquisitions, joint ventures and strategic alliances with suitable partners in China and obtaining a direct export license. This is in line with the Company's long-term growth expansion plan.

UNCOVERING POTENTIAL IN CHINA

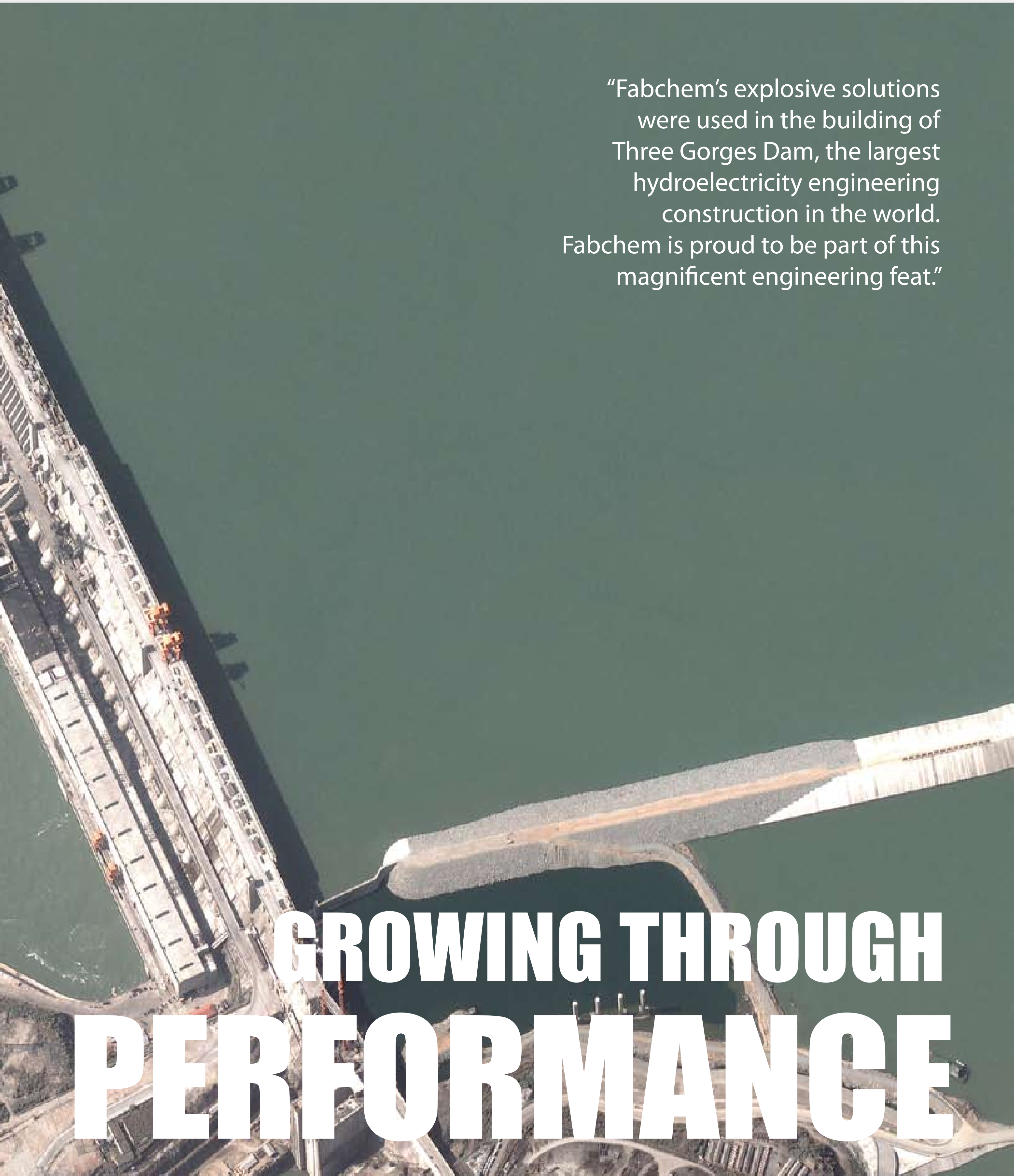
“Fabchem’s continual effort in strengthening capacity and acquiring new capabilities has positioned the Company within a bigger road map and networks.”



GROWING THROUGH KNOWLEDGE

The 44% increase of PRC sales in FY2007 is testament to Fabchem's timely grasp on China's burgeoning commercial explosives demand in the infrastructure, mining and hydroelectric construction sectors.

BUILDING WONDERS: THREE GORGES DAM



"Fabchem's explosive solutions were used in the building of Three Gorges Dam, the largest hydroelectricity engineering construction in the world. Fabchem is proud to be part of this magnificent engineering feat."

GROWING THROUGH PERFORMANCE

"Our management team has been evaluating the options available for us to increase our Group's production capacities in various categories of commercial explosive devices and to venture into other related businesses at this opportune time. We are optimistic about the growth potential of China's commercial explosive market as the industry is undergoing consolidation."

Dear Shareholders,

The past year has been a fruitful financial period as our Group applied for listing of our shares on the Singapore Exchange Securities Trading Limited ("SGX-ST") and our Group was accordingly admitted to the Official List of the SGX-ST in April 2006.

Since being admitted to the Official List of the SGX-ST, our Group had made two major operational achievements in relation to the range of products which will be provided to our customers. In May 2006, we acquired a Seismic Charge manufacturing facility with a production capacity of 3,000 tonnes per annum. This strengthened the competitiveness of our Group and reinforced our market position in China's commercial explosive devices industry.

In August 2006, we obtained the Commission of Science, Technology and Industry for National Defense's approval to design and construct a manufacturing facility which when completed, will produce up to 60 million units of piston non-electric detonators per annum. The manufacturing facility is expected to be completed by the beginning of FY2009.

In February 2007, Dyno Nobel Limited ("Dyno Nobel"), through its wholly owned subsidiary DNX Australia Pty Ltd, acquired a 29.9% shareholding in our Group. The acquisition involved the sale of shares by two controlling shareholders, Fortsmith Investments Limited and Fivestar Limited.

Dyno Nobel is one of the world's leading explosives companies with a global presence and a reputation for having strong technical expertise, safety knowledge and practices. With Dyno Nobel becoming one of our majority shareholders, we are confident of building on our business strengths and participating in the current government-driven industry consolidation in China. More importantly, we firmly believe that Dyno Nobel is an ideal partner to assist our Group in evaluating and pursuing strategic consolidation opportunities in China, given its extensive global industry experience in mergers and acquisitions.

After the acquisition of shares by Dyno Nobel was completed, two new directors and a senior manager recommended by Dyno Nobel were appointed to join our Group. In February 2007, Mr Shane Gannon and Mr Anthony Kutra were appointed non-executive directors of the Group. Both are currently senior executives of Dyno Nobel where Mr Shane Gannon is the Chief Financial Officer and Mr Anthony Kutra is the Senior Vice President of Strategy and Business Development. In May 2007, Mr Chen Rui was appointed Senior Manager of Safety, Technology and Integration. These gentlemen bring valuable experience in managing a commercial explosive company with global operations. With them onboard, they will add value to the strategic growth of our Group.

Operational and Financial Review for FY2007

Our Group's revenue increased by 16.5% to RMB 181.4 million compared to FY2006. This was mainly due to an increase in sales to markets in China, such as Zhejiang, Shanxi and Anhui, as well as an increase in sales to overseas markets such as South Africa. The increase in sales to these countries was partially offset by the decrease in sales to Australia. There were no sales to the United States of America during FY2007.

Gross profit margin declined by 4.8% to 39.5% in FY2007, due mainly to the conclusion of an attractive sourcing contract, which was at very competitive prices. Our Group expects a positive impact on the gross profit margin in the coming year as a new attractive sourcing contract commenced in April 2007.

Our Group's net profit declined by 22.0% to RMB 42.2 million. This was mainly attributed to the decline in the gross profit margin as well as a 50.7% increase in distribution costs and a 112.2% increase in administrative expenses compared to the previous financial year. The increase in distribution costs was in tandem with the increase in revenue. The increase in administrative expenses resulted from increased operations and additional corporate expenses incurred since our Group listed on the SGX-ST in April 2006.

Strong Cash flow

For the financial year ended 31 March 2007, our Group registered net cash generated from operating activities of approximately RMB 25.9 million, net cash used in investing activities of approximately RMB 18.0 million and net cash generated from financing activities of approximately RMB 82.0 million.

Net cash used in investing activities included payment of approximately RMB 12.2 million for the Seismic Charge plant in May 2006. Our Group also obtained net proceeds from our Initial Public Offering of approximately S$16.5 million or RMB 82.2 million in April 2006.

Dividends

We believe our Group would be engaging in a substantial amount of corporate activities in China through organic growth as well as mergers and acquisitions. Given this expectation, the Board of Directors has recommended a cash dividend of 0.5302 Singapore cents per share, subject to your approval at the upcoming Annual General Meeting. This translates to a dividend yield of about 1.0% based on the share price of 55.5 Singapore cents per share.

Future Direction

The Commission of Science, Technology and Industry for National Defense is currently encouraging the commercial explosive industry in China to consolidate smaller scale commercial explosive companies. Our management team has been evaluating the options available for us to increase our Group's production capacity in various categories of commercial explosive devices and to venture into other related businesses at this opportune time. We are optimistic about the growth potential of China's commercial explosive market as the industry is undergoing consolidation.

Acknowledgements

Last but not least, we would like to thank our shareholders, employees and customers for your role in making our Group the success that it is today. We look forward to a more exciting future ahead and sharing with you the fruits of our labour.

Sun Bowen	Dr. Lim Seck Yeow
Managing Director	Non-Executive Chairman

"Fabchem's continual effort in strengthening capacity and acquiring new capabilities has positioned the Company within a bigger road map and networks."

“ 我们的管理团队正在探讨以及评估各种能够提高本集团生产能力的计划。同时这些计划也可以使我们得以借势进军其他的相关业务领域。随着行业内收购合并活动的展开和深入，我们对中国民爆器材市场的增长潜力充满信心。 ”

尊敬的各位股东：

过去一年是本集团硕果累累的一年；随着集团申请在新加坡股票交易所上市获得批准，我们的股票于2006年4月在新加坡股票交易所正式挂牌。

正式挂牌上市之后，本集团已在民爆器材产品系列的开发方面，取得两项重大成就。2006年5月，我们收购一个每年产能达3,000吨的震源药柱生产设施。这无疑大大加强了本集团的竞争力，巩固了我们在中国民爆器材行业中的市场地位。

2006年8月，我们获得国防科学技术工业委员会的批准，设计建造一个每年可生产6,000万发活塞式导爆管雷管的生产项目。预计该项目将于2009财政年度初期建成。

2007年2月，Dyno Nobel Limited (“Dyno Nobel”)通过其属下独资子公司DNX Australia Pty Ltd 收购本集团29.9%的股权。向其出售股份的股东，包括Fortsmith Investments Limited以及Fivestar Limited这两大股东。

Dyno Nobel是全球顶尖民爆器材生产企业之一，业务遍及世界各地，以专业技术、丰富的安全知识而闻名遐尔。有Dyno Nobel这样的大股东做后盾，我们对提高集团的优势以及与中国中央政府推动的行业收购合并活动，感到充满信心。更重要的是，由于Dyno Nobel在全球拥有广泛的行业收购合并经验，我们对于其协助本集团探讨评估并且利用中国的战略整合机会并成为我们的理想伙伴这一点深信不疑。

随着Dyno Nobel完成股权收购活动，本集团聘任了由Dyno Nobel推荐的两名新董事和一名高级经理。2007年2月，Shane Gannon先生和Anthony Kutra先生受委派担任我们集团的非执行董事。这两位目前均是Dyno Nobel的高级执行员，前者担任该公司的首席财务官，后者则是负责策略与业务开发的高级副总裁。2007年5月，陈锐（Chen Rui）先生被委任为主管安全、技术及综合事务的高级经

理。他们为本集团带来管理全球民爆器材公司所需的宝贵经验。通过加入我们的董事局，他们将为本集团的战略发展增值。

2007财政年业务与财务回顾

同2006财政年相比，本集团在2007财政年的收入增长了16.5%，达人民币1亿8,140万元。能够取得如此骄人的成绩，主要是浙江、山西和安徽等中国国内市场，以及南非等海外市场的销售增加。对这些国家销售的增加，部分抵消了对澳大利亚销售的下降。2007财政年集团未向美国销售任何产品。

2007财政年，集团毛利率下跌了4.8%，至39.5%。毛利率下跌主要是因为极有价格竞争力的供应合同结束了。鉴于我们已在2007年4月获得另一份极有价格竞争力的供应合同，预计这将对本集团来年的毛利率产生积极影响。

本集团净利润下跌到大约人民币4,220万元，跌幅约22.0%。这主要归因于毛利率的下跌，销售费用比上个财政年上涨了50.7%，管理费用也上涨了112.2%。销售费用的上涨与销售收入增加形影相随；管理费用的上涨则是因为集团在2006年4月在新加坡股票交易所上市后而发生的运作费用及额外公司费用增加造成的。

强劲的现金流量

在截至2007年3月31日的财政年度期间，本集团产生于经营活动的现金净额，约为人民币2,590万元；用于投资活动的现金净额，约为人民币1,800万元；产生于融资活动的现金净额，约为人民币8,200万元。

用于投资活动的现金净额，包括2006年5月收购震源药柱生产设备所支付的人民币约1,220万元。此外，本集团也从2006年4月的首次公开售股中获得1,650万新元或8,220万人民币的净收益。

股息

我们相信，本集团接下来将从事一系列大量的公司收购合并活动，以利用在中国的政策优势快速增长。基于这一预期，董事会已建议每股派发新元0.5302分的现金股息，但须经各位股东在即将召开的常年股东大会上予以批准。基于每股新元55.5分的股价，该股息额代表1.0%的股息收益率。

未来发展方向

目前，国防科学技术工业委员会正在鼓励中国的民爆器材企业对规模较小的民爆器材企业进行收购合并。我们的管理团队一直在对现有的各种方案进行探讨评估。这些方案将有助于提高本集团生产各种民爆器材的生产能力，同时使我们得以借势进军其他的相关业务领域。随着行业合并活动的展开和深入，我们对中国民爆器材的市场增长潜力充满信心。

鸣谢

最后，我们要对我们的股东、员工和客户所发挥的作用表示真诚的感谢，没有你们的支持，就不会有本集团今天的成就。我们期待创造一个更加辉煌的未来，并同你们共享我们的成果。

孙伯文	林植耀博士
董事长	非执行主席

GROWING THROUGH LEADERSHIP

"The introduction of Dyno Nobel, will further strengthen Fabchem's leadership in commercial explosives both in China and other regions."

From left to right: Dr. Lim Seck Yeow, Sun Bowen,

Bao Hongwei, Shane Gannon, Anthony Kutra, Ong Tai Tiong Desmond, Lim Hui Min John and Wong Joo Wan

Dr. Lim Seck Yeow

Non-Executive Chairman

Dr. Lim Seck Yeow is our non-executive Chairman and was appointed as our Director on 12 October 2004 and re-elected on 27 July 2006. He also serves on the boards of China Powerplus Limited and Zhongguo Jilong Limited which are listed on the Singapore Stock Exchange. Dr. Lim was previously the Managing Director of China Food Industries Limited from 2001 to 2006. He holds an honorary Doctorate of Philosophy in Entrepreneurship from Wisconsin International University in the United States.

Sun Bowen

Managing Director

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

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

Bao Hongwei

Executive Director / General Manager

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

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

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

Shane Gannon

Non-Executive Director

Mr Shane Gannon is our non-executive Director and was appointed on 2 February 2007. He is currently Chief Financial Officer of Dyno Nobel Ltd. Prior to joining Dyno Nobel in 2006, Mr Gannon held various senior management positions with Australian and overseas listed entities. He has a strong corporate finance background, following 10 years with the construction, project management and capital structuring company, Lend Lease Corporation Ltd, where he was appointed to a number of CFO and general management roles across the group. Mr Gannon has also served as CEO of Novera Energy Ltd and CFO of Employment National.

Anthony Kutra

Non-Executive Director

Anthony Kutra is our Non-executive Director and was appointed on 2 February 2007. He is Senior Vice President, Strategy and Business Development of Dyno Nobel. Tony Kutra has extensive experience in business development within both explosives and the gas and oil industries. Tony joined Dyno Nobel in 1991 as a Business Development Manager. He spent eight years based in China and Norway and in 2001 was appointed as Senior Vice President Corporate Development, responsible for global business strategy and major capital investments. Tony returned to Australia in 2005 where he was responsible for Ammonia Nitrate operations and strategy in Asia Pacific.

Ong Tai Tiong Desmond

Independent Director

Ong Tai Tiong Desmond is our Independent Director and was appointed as our Director on 17 February 2006 and re-elected on 27 July 2006. Currently, he is the Regional Managing Director of DLA Piper Singapore Pte Ltd ("DLA"), an international law firm, where he undertakes the overall responsibility for the business performances of DLA's South East Asian offices. He is an independent director of China Food Industries Limited, Zhongguo Powerplus Industries Limited as well as a non-executive director of Teledata (Singapore) Limited. He also sits on the board of Singapore Dance Theatre Limited. From December 1998 to May 2003, he was the Managing Partner of Messrs J Koh & Co. He has also previously practiced at Messrs Rajah & Tann and Messrs Allen & Gledhill.

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

Lim Hui Min John

Independent Director

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

Wong Joo Wan

Independent Director

Wong Joo Wan is our Independent Director and was appointed on 2 February 2007. He is Director of Tay Swee Sze Advisors Pte Ltd and an Independent Director of Teledata (Singapore) Limited. From 2002 to 2006, he was a Director of Alvarez & Marsal (SE Asia) Pte Ltd and an Associate Director of Arthur Andersen, Global Corporate Finance Division from 1995 to 2000.

Mr. Wong specialises in the area of business advisory for corporations, in particular in the area of corporate finance.

Chen Rui

Senior Manager – Safety, Technology & Integration

Chen Rui is our Senior Manager – Safety, Technology & Integration. He is responsible for the safety and technology aspects of our Group's operations. He will also be involved in acquisitions and integration of commercial explosives companies in China. After graduating from Shandong University of Science and Technology in 1986 with Bachelor of Science – Mining Engineering English, he was a bulk explosives plant manager with An Tai Bao Joint Venture Coal Mine. He was later employed by Dyno Nobel for approximately 7 years from 1992 to 1998 where he was involved in developing strategic plans for China business development and also conducting feasibility studies for investment opportunities in China. Chen Rui obtained his MBA - Management with Norwegian School of Management, Fudan University in 1999.

Sun Qiang

Sales and Marketing Manager

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

Yang Xingdong

Administrative Manager

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

Kwek Wei Lee

Finance Manager (Group Accounts)

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

Chen Hongyu

Finance Manager (China Operations)

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

Yang Changde

Production Manager

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

SAFETY AND SECURITY COMPLIANCE

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

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

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

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

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

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

SAFETY AND SECURITY COMPLIANCE

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

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

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

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

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

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

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

SECURITY MEASURES

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

(a) A team of trained security guards who are each certified and/or licensed by the local Public Security Bureau guards all of our production facilities and warehouses, oversee the transportation of goods and safeguard our raw materials and finished goods. As at the financial year ended 31 March 2007, we had a security team comprising 78 guards.

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

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

SAFETY AND SECURITY COMPLIANCE

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

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

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

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

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

CORPORATE GOVERNANCE REPORT

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

The SGX-ST Listing Manual requires that an issuer which holds its Annual General Meeting ("**AGM**") on or after 1 January 2003 (the "effective date") should describe its corporate governance practices with specific reference to the Code of Corporate Governance ("Code") in its annual report.

The main corporate governance practices that were in place throughout the financial year ended 31 March 2007 are set out below.

1. Board of Directors (the "Board")

1.1 The Board's conduct of its affairs

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

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

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

CORPORATE GOVERNANCE REPORT

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

	Board		Nomination Committee		Remuneration Committee		Audit Committee	
Name	No. of meetings held	No. of meetings attended	No. of meetings held	No. of meetings attended	No. of meetings held	No. of meetings attended	No. of meetings held	No. of meetings attended
Dr Lim Seck Yeow	2	2	1	1	1	1	2	2
Sun Bowen	2	2						
Bao Hongwei	2	1						
Ong Tai Tiong Desmond	2	2	1	1	1	1	2	2
Lim Hui Min John	2	2	1	1	1	1	2	2
Shane Gannon[(1)]	2	–						
Anthony Kutra[(1)]	2	–						
Wong Joo Wan[(2)]	2	–						

Notes:

(1) appointed as a non-executive director on 2nd February 2007.

(2) appointed as an independent director on 2nd February 2007.

All the Directors are updated regularly on changes in Company policies, Board processes, corporate governance and further are encouraged to participate in seminars and discussions to keep themselves updated on the latest developments concerning the Group and to keep abreast of the latest regulatory changes.

1.2 Board Composition and Balance

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

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

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

CORPORATE GOVERNANCE REPORT

1.3 Role of Chairman and Chief Executive Officer

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

1.4 Board Membership

We believe that Board renewal must be an ongoing process, to ensure good governance and to maintain relevance to the business and changing needs of the Company. The Company's Articles of Association require at least one-third of Directors (excluding the Managing Director) to retire and subject themselves to re-election by shareholders at every AGM. In other words, no Director stays in office for more than three years without being re-elected by shareholders.

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

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

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

1.5 Board Performance

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

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

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

CORPORATE GOVERNANCE REPORT

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

1.6 Access to Information

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

2. Remuneration Matters

2.1 Procedures for Developing Remuneration Policies

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

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

2.2 Level and Mix of Remuneration

In its deliberations, the RC will take into consideration industry practices and norms in compensation in addition to the Company's relative performance to the industry and the performance of the individual Directors. No Director will be involved in deciding his own remuneration.

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

CORPORATE GOVERNANCE REPORT

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

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

2.3 Disclosure on Remuneration

Remuneration of Directors

The Executive Directors' remuneration comprise mainly of their salary, allowances, bonuses and profit sharing awards conditional upon their meeting certain profit before tax targets. The details of their remuneration package are given below.

Our Independent and Non-Executive Directors have remuneration packages which comprise of a Directors' fee component. The Directors' fees are based on a scale of fees divided into basic retainer fees as a Director and additional fees for serving on Board committees and their roles in the committee. Directors' fees for our Directors are subject to the approval of shareholders at the forthcoming AGM.

For competitive reasons, the Company is not disclosing the annual remuneration of each individual Director for the financial year ended 31 March 2007. Instead, we are disclosing the bands of remuneration as follows:-

Name of Director	S$0 to S$250,000	S$250,001 to S$500,000	Directors' Fees*	Percentage of Variable Remuneration	Percentage of Fixed Remuneration (including Directors' fees)
Dr Lim Seck Yeow	–	–	100%	0%	100%
Sun Bowen	–	✓	–	63.5%	36.5%
Bao Hongwei	✓	–	–	67.8%	32.2%
Shane Gannon[(a)]	–	–	100%	0%	100%
Anthony Kutra[(a)]	–	–	100%	0%	100%
Ong Tai Tiong Desmond	–	–	100%	0%	100%
Lim Hui Min John	–	–	100%	0%	100%
Wong Joo Wan[(b)]	–	–	100%	0%	100%

* The remuneration in the form of Directors' fees is subject to the approval of the shareholders at the forthcoming AGM.

Notes:

(a) appointed as a non-executive director on 2nd February 2007.

(b) appointed as an independent director on 2nd February 2007.

CORPORATE GOVERNANCE REPORT

Remuneration of Key Employees

Details of remuneration paid to the top five executives (who are not Directors of the Company) of the Group for the financial year ended 31 March 2007 are set out below. For competitive reasons, the Company is only disclosing the band of remuneration of each executive for the financial year ended 31 March 2007 under review as follows:-

Name of Key Executive	S$0 to S$250,000	Percentage of Variable Remuneration	Percentage of Fixed Remuneration
Sun Qiang	✓	–	100%
Yang Xingdong	✓	–	100%
Kwek Wei Lee	✓	21.3%	78.7%
Chen Hongyu	✓	–	100%
Yang Changde	✓	–	100%

3. Accountability and Audit

3.1 Accountability

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

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

3.2 Audit Committee

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

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

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

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

CORPORATE GOVERNANCE REPORT

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The AC has also reviewed the annual financial statements of the Company and the Group for the financial year ended 31 March 2007 as well as the auditors' reports thereon. Interested person transactions of the Group in the said financial year have also been reviewed by the AC.

CORPORATE GOVERNANCE REPORT

The AC has reviewed with management all the non-audit services provided by the external auditors to the Company and the Group in the financial ended 31 March 2007. The AC is of the opinion that the independence and objectivity of the external auditors would not be impaired by the provision of these non-audit services.

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

3.3 Internal Controls

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

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

3.4 Internal Audit

The Company has set up an Internal Audit ("IA") to provide internal audit services to our Company. The IA's function is to report to the AC on audit matters and oversee and institute the function of internal audits, prepare timely reports and communications to the various committees, and administrative and operational matters to the Board. The IA will also conduct checks on whether all of our Company's safety and security measures and procedures are complied with and will issue reports to the AC. These safety and security measures are disclosed in the section entitled "Safety and Security Compliance" of this Annual Report.

3.5 Whistle-blowing Policy

The Company has in place whistle-blowing policies and arrangements by which staff may, in confidence, raise concerns about possible corporate improprieties in matters of financial reporting or other matters. to ensure independent investigation of such matters and for appropriate follow up action, all whistle-blowing reports are to be sent to the head of the internal audit function. The Chairman of the AC and the Chairman of the Board will be informed immediately of all whistle-blowing reports received.

4. Communication with Shareholders

4.1 Communication with Shareholders

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

CORPORATE GOVERNANCE REPORT

4.2 Greater Shareholder Participation

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

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

5. Dealings in Securities

The Group has adopted an internal code in relation to dealings in the Company's securities pursuant to rule 1207 (18) of the SGX-ST Listing Manual that is applicable to the Company and all its officers.

The internal code prohibits the officers from dealing in the Company's shares on short-term considerations. It also disallows the Company and its officers from dealing in the Company's shares during the period commencing one month before the announcement of the Group's half-yearly and full year results and ending on the date of the announcement of the results.

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

6. Risk Management

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

7. Material Contracts

There were no material contracts of the Company or its subsidiaries involving the interests, direct or deemed, of the Managing Director or any Director or controlling shareholders (as defined in the SGX-ST Listing Manual), either still subsisting at the end of the financial year ended 31 March 2007.

8. Interested Persons Transactions

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

CORPORATE GOVERNANCE REPORT

During the financial year ended 31 March 2007, the following Interested Person Transactions were entered into by the Group:

Name of interested person	Nature	Aggregate value of all interested person transaction (excluding transactions less than $100,000 and transactions conducted under a shareholders' mandate pursuant to Rule 920)		Aggregate value of all interested person transactions conducted under a shareholders' mandate pursuant to Rule 920 (excluding transactions less than $100,000)	
		FY2007 RMB'000	FY2006 RMB'000	FY2007 RMB'000	FY2006 RMB'000
Shandong Yinguang Chemical Industry Co., Ltd	Rental of manufacturing facilities, office and warehouses	3,000	3,000	–	–
	Purchase of inventories	–	12,195	–	–
Feixian Yinguang Substances Development Co., Ltd	Purchase of packaging materials	4,227	8,173	–	–
Feixian Yinguang Transport Co., Ltd	Payment of transportation charges	2,369	2,466	–	–
Feixian Yinguang Magnesium Co., Ltd	Purchase of magnesium materials	537	330	–	–
Linyi Yinguang Printing and Packaging Co., Ltd	Purchase of printing and packaging materials	768	471	–	–

CORPORATE GOVERNANCE REPORT

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

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

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

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

Nature	FY2007 RMB'000	FY2006 RMB'000
Sales of commercial explosives to Aoxin	36,124	11,910
Sales of commercial explosives to our overseas customers through Aoxin	28,548	42,536

FINANCIAL CONTENTS

REPORT OF THE DIRECTORS

The directors of the Company are pleased to present their report together with the audited financial statements of the Company and of the Group for the financial year ended 31 March 2007.

1. DIRECTORS AT DATE OF REPORT

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

Dr Lim Seck Yeow	
Sun Bowen	
Bao Hongwei	
Shane Gannon	(Appointed on 2 February 2007)
Anthony Kutra	(Appointed on 2 February 2007)
Ong Tai Tiong Desmond	
Lim Hui Min John	
Wong Joo Wan	(Appointed on 2 February 2007)

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

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

3. DIRECTORS' INTERESTS IN SHARES AND DEBENTURES

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

Name of directors and company in which interest are held	Deemed Interest	
	At beginning of year	At end of year
	Ordinary shares with no par value	
The Company		
Dr Lim Seck Yeow	45,500,000	22,334,000
Sun Bowen	122,500,000	75,700,000
Bao Hongwei	7,000,000	7,000,000

By virtue of section 7 of the Singapore Companies Act, Cap 50, Mr Sun Bowen are deemed to have an interest all the related corporations of the Company at the beginning and end of the year.

The directors' interests as at 21 April 2007 were the same as those at the end of the financial year.

REPORT OF THE DIRECTORS

4. CONTRACTUAL BENEFITS OF DIRECTORS

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

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

5. OPTIONS TO TAKE UP UNISSUED SHARES

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

6. OPTIONS EXERCISED

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

7. UNISSUED SHARES UNDER OPTION

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

8. AUDIT COMMITTEE

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

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

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

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

REPORT OF THE DIRECTORS

8. AUDIT COMMITTEE (Cont'd)

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

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

9. INDEPENDENT AUDITORS

The independent auditors, RSM Chio Lim, have expressed their willingness to accept re-appointment.

10. SUBSEQUENT DEVELOPMENTS

There are no significant developments subsequent to the release of the Group's and the Company's preliminary financial statements, as announced on 28 May 2007, which would materially affect the Group's and the Company's operating and financial performance as of the date of this report.

ON BEHALF OF THE DIRECTORS

....
Sun Bowen
Director

....
Bao Hongwei
Director

29 May 2007

STATEMENT OF THE DIRECTORS

In the opinion of the directors, the accompanying financial statements are drawn up so as to give a true and fair view of the state of affairs of the Company and of the Group as at 31 March 2007, and of the results, changes in equity and cash flows of the Group for the financial year then ended and at the date of this statement there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

The board of directors authorised the issue of these financial statements.

ON BEHALF OF THE DIRECTORS

....

Sun Bowen
Director

....

Bao Hongwei
Director

29 May 2007

INDEPENDENT AUDITORS' REPORT

to the members of Fabchem China Limited

We have audited the accompanying financial statements of Fabchem China Limited and its subsidiary (the Group), which comprise the balance sheets of the Group and the Company as at 31 March 2007, and the income statement, statement of changes in equity and cash flow statement of the Group for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' Responsibility for the Financial Statements

The Company's Directors are responsible for the preparation and fair presentation of these financial statements in accordance with the provisions of the Singapore Companies Act, Cap. 50 ("the Act") and Singapore Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Independent Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Singapore Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit includes performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Group's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstance, but not for the purpose for expressing an opinion on the effectiveness of the Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion,

a) the consolidated financial statements of the Group and the balance sheet of the Company are properly drawn up in accordance with the provisions of the Act and Singapore Financial Reporting Standards so as to give a true and fair view of the state of affairs of the Group and of the Company as at 31 March 2007 and the results, changes in equity and cash flows of the Group for the year ended on that date; and

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

RSM Chio Lim
Certified Public Accountants
Singapore

29 May 2007

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

BALANCE SHEETS

as at 31 March 2007

	Notes	Group 2007 RMB'000	Group 2006 RMB'000	Company 2007 RMB'000	Company 2006 RMB'000
ASSETS					
Current assets:					
Cash and cash equivalents	4	129,008	38,465	396	218
Trade and other receivables	5	93,307	83,585	84	12,011
Inventories	6	12,238	10,953	–	–
Total current assets		234,553	133,003	480	12,229
Non-current assets:					
Investment in subsidiary	7	–	–	115,030	35,266
Plant and equipment	8	22,205	5,695	702	12
Total non-current assets		22,205	5,695	115,732	35,278
Total assets		256,758	138,698	116,212	47,507
LIABILITIES AND EQUITY					
Current liabilities:					
Trade and other payables	9	32,605	43,239	3,112	13,388
Current portion of finance lease obligation	10	67	–	67	–
Current tax payable		3,221	–	–	–
Total current liabilities		35,893	43,239	3,179	13,388
Non-current liability:					
Finance lease obligation	10	403	–	403	–
Total non-current liability		403	–	403	–
Total liabilities		36,296	43,239	3,582	13,388
Equity attributable to equity holders of the Company:					
Share capital	11	116,849	34,687	116,849	34,687
Reserves	12	103,613	60,772	(4,219)	(568)
Total equity		220,462	95,459	112,630	34,119
Total liabilities and equity		256,758	138,698	116,212	47,507

See accompanying notes to financial statements.

CONSOLIDATED INCOME STATEMENT

year ended 31 March 2007

	Notes	Group 2007 RMB'000	Group 2006 RMB'000
Revenue	13	181,391	155,745
Cost of sales		(109,825)	(86,682)
Gross profit		71,566	69,063
Financial income	14	221	9
Financial expense	14	(29)	(937)
Distribution costs		(8,792)	(5,833)
Administrative expenses		(17,441)	(8,221)
Other credits / (charges)	15	(98)	–
Profit before taxation		45,427	54,081
Income tax expense	16	(3,221)	–
Profit for the year attributable to equity holders of the Company		42,206	54,081
Earnings per share from continuing operations (expressed in RMB cents)	19		
- Basic		18.24	30.90
- Diluted		18.24	30.90

See accompanying notes to financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

year ended 31 March 2007

Group	Issued Capital RMB'000	Statutory Reserves RMB'000	Foreign Exchange Translation Reserve RMB'000	Retained Earnings RMB'000	Total RMB'000
At 1 April 2005	10,000	4,602	80	26,699	41,381
Foreign currency translation difference	–	–	(3)	–	(3)
Net income recognised directly in equity	–	–	(3)	–	(3)
Net profit for the year	–	–	–	54,081	54,081
Total recognised income and expense for the year	–	–	(3)	54,081	54,078
Capitalisation by bonus issue	24,687	–	–	(24,687)	–
Appropriation for the year	–	5,604	–	(5,604)	–
Balance at 31 March 2006	34,687	10,206	77	50,489	95,459
		(a)	(a)		
At 1 April 2006	34,687	10,206	77	50,489	95,459
Foreign currency translation difference	–	–	635	–	635
Net income recognised directly in equity	–	–	635	–	635
Net profit for the year	–	–	–	42,206	42,206
Total recognised income and expense for the year	–	–	635	42,206	42,841
Issue of new shares	94,247	–	–	–	94,247
Share issue expenses	(12,085)	–	–	–	(12,085)
Appropriation for the year	–	4,664	–	(4,664)	–
Balance at 31 March 2007	116,849	14,870	712	88,031	220,462

(a) Not available for distribution as cash dividends.

See accompanying notes to financial statements.

CONSOLIDATED CASH FLOW STATEMENT

year ended 31 March 2007

	2007 RMB'000	2006 RMB'000
Cash flows from operating activities:		
Net profit	42,206	54,081
Adjustments for :		
Depreciation expense	2,210	934
Plant and equipment written-off	98	–
Income tax expenses	3,221	–
Interest expense	29	937
Interest income	(217)	(9)
Operating profit before working capital changes	47,547	55,943
Trade and other receivables	(9,722)	(33,466)
Inventories	(1,285)	(5,742)
Trade and other payables	(10,634)	22,856
Cash generated from operations	25,906	39,591
Income tax paid	–	–
Net cash from operating activities	25,906	39,591
Cash flows from investing activities:		
Purchase of plant and equipment (Note 4)	(18,237)	(877)
Interest received	217	9
Net cash used in investing activities	(18,020)	(868)
Cash flows from financing activities:		
Proceeds from issue of shares, net of expenses	82,162	–
Decrease in finance lease obligation	(114)	–
Interest paid	(29)	(937)
Net cash from / (used in) financing activities	82,019	(937)
Net effect of exchange rate changes on consolidation	638	(3)
Net increase in cash	90,543	37,783
Cash at beginning of year	38,465	682
Cash at end of year (Note 4)	129,008	38,465

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENT

year ended 31 March 2007

1. GENERAL

The Company is incorporated in Singapore with limited liability. The financial statements are presented in Chinese Renminbi ("RMB"). They are drawn up in accordance with provisions of the Companies Act. Cap 50 and the Singapore Financial Reporting Standards ("FRS") and they cover the parent and the Group entities. The Company's financial statements have been prepared on the same basis, and as permitted by the Companies Act, Cap. 50, no income statement is presented for the Company. The financial statements were approved and authorised for issue by the Board of Directors on 29 May 2007.

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ACCOUNTING CONVENTION – The financial statements are prepared under the historical cost convention except where an FRS require an alternative treatment (such as fair values) as disclosed where appropriate in these financial statements.

BASIS OF PRESENTATION – The purchase method is used for the consolidated financial statements that include the financial statements made up to the balance sheet date each year of the Company and its subsidiaries. Consolidated financial statements are the financial statements of the Group presented as those of a single economic entity. The consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances. All significant intragroup balances and transactions, including income, expenses and dividends, are eliminated in full on consolidation. The results of the investees acquired or disposed of during the financial year are accounted for from the respective dates of acquisition or up to the dates of disposal. On disposal the attributable amount of goodwill if any is included in the determination of the gain or loss on disposal.

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

NOTES TO FINANCIAL STATEMENT

year ended 31 March 2007

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

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

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

LOANS AND RECEIVABLES – Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than: (a) those that the entity intends to sell immediately or in the near term and are classified as held for trading, and those that the entity upon initial recognition designates as at fair value through profit or loss; (b) those that the entity upon initial recognition designates as available for sale; or (c) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration and are classified as available for sale. After initial recognition such financial assets, including derivatives that are assets, are measured at their fair values, without any deduction for transaction costs that may be incurred on sale or other disposal, except for the non-current financial assets that are loans and receivables which are measured at amortised cost using the effective interest method less provision for impairment. These items are included in the balance sheet in loans and receivables as current assets or as non-current assets where the maturities are greater than 12 months after the balance sheet date.

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

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

NOTES TO FINANCIAL STATEMENT

year ended 31 March 2007

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

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

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

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

Plant and equipment – 4.8% to 33.3%

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

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

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

NOTES TO FINANCIAL STATEMENT

year ended 31 March 2007

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

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

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

FINANCIAL LIABILITIES – Financial liabilities at fair value through profit or loss when recognised initially are measured at fair value. Financial liabilities not at fair value through profit or loss are measured at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial liability. After initial recognition financial liabilities at fair value through profit or loss, including derivatives that are financial liabilities, are measured at fair value. Other financial liabilities not at fair value through profit or loss are measured at amortised cost and any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method. Financial liabilities including bank and other borrowings are classified as current liabilities unless there is an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date. Items classified within trade and other payables are not usually re-measured, as the obligation is usually known with a high degree of certainty and settlement is short-term.

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

NOTES TO FINANCIAL STATEMENT

year ended 31 March 2007

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

LEASES AS A LESSEE – A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. At the commencement of the lease term, a finance lease is recognised as an asset and as liability in the balance sheet at amounts equal to the fair value of the leased asset or if lower, the present value of the minimum lease payments, each determined at the inception of the lease. The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease, if this is practicable to determine; if not the lessee's incremental borrowing rate is used. Any initial direct costs of the lessee are added to the amount recognised as an asset. The excess of the lease payments over the recorded lease liability are treated as finance charges which are allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent rents are charged as expenses in the periods in which they are incurred. The assets are depreciated as owned depreciable assets. Leases where the lessor effectively retains substantially all the risks and benefits of ownership of the leased assets are classified as operating leases. For operating leases, lease payments are recognised as an expense in the income statement on a straight-line basis over the term of the relevant lease unless another systematic basis is representative of the time pattern of the user's benefit, even if the payments are not on that basis. Lease incentives received are recognised in the income statement as an integral part of the total lease expense.

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

FAIR VALUE OF FINANCIAL INSTRUMENTS – The carrying values of current financial assets and financial liabilities including cash, accounts receivable, short-term borrowings, accounts payable approximate their fair values due to the short-term maturity of these instruments. The fair values of non-current financial instruments are not disclosed unless there are significant items at the end of the year and in the event the fair values are disclosed in the relevant notes. Disclosures of fair value are not made when the carrying amount is a reasonable approximation of fair value. The maximum exposure to credit risk is the fair value of the financial instruments at the balance sheet date.

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

NOTES TO FINANCIAL STATEMENT

year ended 31 March 2007

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

FOREIGN CURRENCY TRANSACTIONS – The functional currency of the Company is Singapore dollar ("S$") as it reflects the primary economic environment in which it operates. Transactions in foreign currencies are recorded in the functional currency at the rates ruling at the dates of the transactions. At each balance sheet date, recorded monetary balances and balances measured at fair value that are denominated in foreign currencies are reported at the rates ruling at the balance sheet and fair value dates respectively. All realised and unrealised exchange adjustment gains and losses are dealt with in the income statement. The presentation currency of the Company is the Chinese Renminbi ("RMB"), which is the functional currency of the Group as it reflects the economic substance of the underlying events and circumstances relevant to the Group. For the RMB financial statements, the assets and liabilities of the Company are translated at year-end rates of exchange and the income and expense items are translated at average rates of exchange for the year. The resulting translation adjustments (if any) are accumulated in a separate component of shareholders' equity. The translation of S$ amounts into Chinese RMB amounts for the year ended is included solely for the convenience of readers and has been made at the rate of S$1 to RMB 5.1029 (2006: S$1 to RMB 4.9606) the approximate rate of exchange at the end of the year. Such translation should not be construed as a representation that the RMB amounts could be converted into S$ at the above rate or other rate.

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

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

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

NOTES TO FINANCIAL STATEMENT

year ended 31 March 2007

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

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

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

CRITICAL JUDGEMENTS, ASSUMPTIONS AND ESTIMATION UNCERTAINTIES

There were no critical judgements made in the process of applying the entity's accounting policies that have the most significant effect on the amounts recognised in the financial statements. The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Critical assumptions and estimation uncertainties:

ALLOWANCES FOR DOUBTFUL ACCOUNTS – An allowance is made for doubtful accounts for estimated losses resulting from the subsequent inability of the customers to make required payments. If the financial conditions of the customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required in future years. Management specifically analyses accounts receivables and analyses historical bad debt, customer concentrations, customer creditworthiness, current economic trends and changes in our customer payment terms when making a judgement to evaluate the adequacy of the allowance for doubtful accounts. At the balance sheet date, the receivables are measured at fair value and their fair values might change materially within the next financial year but these changes would not arise from assumptions or other sources of estimation uncertainty at the balance sheet date. The amount of trade receivables at the balance sheet date was RMB90,163,618.

RISK MANAGEMENT POLICIES FOR FINANCIAL INSTRUMENTS

GENERAL RISK MANAGEMENT PRINCIPLES – The financial instruments comprise some cash and liquid resources, and various other items, including trade and other receivables, trade and other payables. The main purpose of these financial instruments is to raise finance for the entity's operations. The main risks arising from the entity's financial instruments are credit risk, interest risk, liquidity risk, foreign currency risk and market price risk comprising interest rate and currency risk exposures. The management reviews and monitors policies for managing each of these risks and they are summarised below.

NOTES TO FINANCIAL STATEMENT

year ended 31 March 2007

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

CREDIT RISK ON FINANCIAL ASSETS – Financial assets that are potentially subject to concentrations of credit risk and failures by counterparties to discharge their obligations consist principally of cash, cash equivalents and trade and other accounts receivable. Credit risk on cash balances and derivative financial instruments is limited because the counter-parties are banks with high credit ratings. An ongoing credit evaluation is performed of the debtors' financial condition and a loss from impairment is recognised in the income statement. There is no significant concentration of credit risk, as the exposure is spread over a large number of counter-parties and customers unless otherwise disclosed in the notes to the financial statements.

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

3. RELATED PARTY TRANSACTIONS

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

3.1 Related companies

Related companies in these financial statements refer to members of the company's group of companies.

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

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

NOTES TO FINANCIAL STATEMENT

year ended 31 March 2007

3. RELATED PARTY TRANSACTIONS (Cont'd)

3.2. Other related parties

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

Significant other related party transactions:

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

	Group Other related parties	
	2007 RMB'000	2006 RMB'000
Sales of goods (*)	64,672	54,446
Rental expenses	3,253	3,000
Purchase of goods	5,650	21,169
Distribution expenses	–	98
Freight charges	2,369	2,466
(*) Included in these amounts are export sales to overseas customers through a related party:	28,548	42,536

3.3. Key management compensation

	Group	
	2007 RMB'000	2006 RMB'000
Salaries and other short-term employee benefits	3,806	524

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

	Group	
	2007 RMB'000	2006 RMB'000
Directors' remuneration of directors of subsidiary company	2,280	64
Directors' fee of directors of the holding company	1,006	99

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

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

NOTES TO FINANCIAL STATEMENT

year ended 31 March 2007

3. RELATED PARTY TRANSACTIONS (Cont'd)

3.4. Other receivables from and other payables to related parties

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

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

	Group	
	Director 2007 RMB'000	Other related parties 2007 RMB'000
Other receivables/(other payables):		
Balance at beginning of year	(1,600)	(1,557)
Amounts paid out during the year	2,245	1,612
Amounts received and charges during the year	(780)	(56)
Balance at end of year - debit / (credit)	(135)	(1)

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

NOTES TO FINANCIAL STATEMENT

year ended 31 March 2007

4. CASH AND CASH EQUIVALENTS

	Group		Company	
	2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000
Not restricted in use	129,008	38,465	396	218
Analysis of above amount by currency:				
Chinese Renminbi	128,612	38,247	–	–
Singapore dollars	396	218	396	218
	129,008	38,465	396	218

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

The rate of interest for the cash on interest earning account is 1.0% (2006: 1.0%) per annum. The effective interest rate is about 1.0% (2006: 1.0%) per annum.

Non-cash transactions:

During the year, there were acquisitions of plant and equipment with a total cost of approximately RMB 525,000 (2006: Nil) acquired by means of finance leases.

5. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000
Trade receivables;				
Related party (Note 3)	46,937	48,033	–	–
Outside parties	43,227	22,344	–	–
Other receivables and prepayments:				
Other receivables	1,341	–	–	–
Related party (Note 3)	–	55	–	–
Advances to suppliers	1,057	650	–	–
Advances to staff for business purposes	300	422	–	–
Deferred expenditure	–	12,009	–	12,009
Prepayment	445	72	84	2
Total trade and other receivables	93,307	83,585	84	12,011
Analysis of above amount by currency:				
Chinese Renminbi	93,223	71,574	–	–
Singapore dollar	84	12,011	84	12,011
	93,307	83,585	84	12,011

NOTES TO FINANCIAL STATEMENT

year ended 31 March 2007

5. TRADE AND OTHER RECEIVABLES (Cont'd)

The general credit period granted to customers is about 90 days (2006: 90 days). Current receivables with a short duration are not discounted and the carrying values are assumed to approximate the fair value.

	Group		Company	
	2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000
Concentration of customers:				
Top 1 customer	46,937	48,033	–	–
Top 2 customers	51,443	50,098	–	–
Top 3 customers	55,785	51,685	–	–

Deferred expenditure represents expenditure stated at cost, incurred in connection with the proposed listing of the shares of the Company on the Singapore Exchange Securities Trading Limited. The expenditure has been set off against the proceeds from shares issued upon listing (Note 11).

6. INVENTORIES

	Group	
	2007 RMB'000	2006 RMB'000
At cost:		
Raw materials	7,204	5,680
Work-in-progress	395	–
Finished goods	4,639	5,273
	12,238	10,953
Included in cost of sales:		
Changes in inventories of finished goods and work in progress	239	(3,401)
Raw materials and consumables used	90,994	72,312

NOTES TO FINANCIAL STATEMENT

year ended 31 March 2007

7. INVESTMENT IN SUBSIDIARY

	Company 2007 RMB'000	Company 2006 RMB'000
Unquoted equity shares at cost to Company	113,143	35,266
Foreign currency translation difference	1,887	–
	115,030	35,266
Net book value of subsidiary	222,862	96,607

The subsidiary held by the Company is listed below:

Name of subsidiary, country of incorporation, place of operations and principal activities	Cost of the Investment		Percentage of equity held by Group	
	2007 RMB'000	2006 RMB'000	2007 %	2006 %
Shandong Yinguang Technology Co., Ltd. People's Republic of China Production and sale of commercial explosive products (a)	113,143	35,266	100	100

During the current financial year, the Company increased the paid up capital in Shandong Yinguang Technology Co., Ltd. by approximately S$15.5 million using the net proceeds from the Initial Public Offering.

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

NOTES TO FINANCIAL STATEMENT

year ended 31 March 2007

8. PLANT AND EQUIPMENT

Group	Plant and equipment RMB'000	Construction-in-progress RMB'000	Total RMB'000
Cost:			
At beginning of year 1 April 2006	6,884	41	6,925
Additions	16,841	1,980	18,821
Transfer to plant and equipment	103	(103)	–
Disposals	(138)	–	(138)
At end of year 31 March 2007	23,690	1,918	25,608
Accumulated depreciation:			
At beginning of year 1 April 2006	1,230	–	1,230
Depreciation for the year	2,210	–	2,210
Disposals	(40)	–	(40)
Translation differences	3	–	3
At end of year 31 March 2007	3,403	–	3,403
Net book value:			
At end of year 31 March 2007	20,287	1,918	22,205
Cost:			
At beginning of year 1 April 2005	6,048	–	6,048
Additions	836	41	877
At end of year 31 March 2006	6,884	41	6,925
Accumulated depreciation:			
At beginning of year 1 April 2005	296	–	296
Depreciation for the year	934	–	934
At end of year 31 March 2006	1,230	–	1,230
Net book value:			
At end of year 31 March 2006	5,654	41	5,695

NOTES TO FINANCIAL STATEMENT

year ended 31 March 2007

8. PLANT AND EQUIPMENT (Cont'd)

Company	Plant and equipment RMB'000	Construction-in-progress RMB'000	Total RMB'000
Cost:			
At beginning of year 1 April 2006	18	–	18
Additions	1,077	–	1,077
At end of year 31 March 2007	1,095	–	1,095
Accumulated depreciation:			
At beginning of year 1 April 2006	6	–	6
Depreciation for the year	384	–	384
Translation differences	3	–	3
At end of year 31 March 2007	393	–	393
Net book value:			
At end of year 31 March 2007	702	–	702
Cost:			
At beginning of year 1 April 2005	–	–	–
Additions	18	–	18
At end of year 31 March 2006	18	–	18
Accumulated depreciation:			
At beginning of year 1 April 2005	–	–	–
Depreciation for the year	6	–	6
At end of year 31 March 2006	6	–	6
Net book value:			
At end of year 31 March 2006	12	–	12

i) The net book value of the equipment held under finance lease as at 31 March 2007 amounted to approximately RMB 525,000 (2006: Nil) for both the Group and Company.

ii) Assets under construction represent cost incurred for the construction of a production facility. No interest is capitalised.

NOTES TO FINANCIAL STATEMENT

year ended 31 March 2007

8. PLANT AND EQUIPMENT (Cont'd)

iii) The depreciation expense is charged as follows:

	Cost of sales RMB'000	Distribution costs RMB'000	Administrative expenses RMB'000	Total RMB'000
Group:				
2006	811	–	123	934
2007	1,483	–	727	2,210
Company:				
2006	–	–	6	6
2007	–	–	384	384

9. TRADE AND OTHER PAYABLES

	Group		Company	
	2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000
Trade payables;				
Outside parties and accrued liabilities	24,815	17,084	2,971	526
Related parties (Note 3)	2,470	6,428	–	–
VAT payables	1,219	5,037	–	–
Other payables:				
Related parties (Note 3)	1	1,612	–	1,506
Director (Note 3)	135	1,600	135	1,600
Subsidiary (Note 3)	–	–	–	111
Outside parties	3,965	11,478	6	9,645
Total trade and other payables	32,605	43,239	3,112	13,388

	Group		Company	
	2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000
Analysis of above amount by currency:				
Chinese Renminbi	29,493	29,962	–	–
Singapore dollar	3,112	13,277	3,112	13,388
	32,605	43,239	3,112	13,388

The general credit period granted by suppliers is about 60 to 90 days (2006: 60 to 90 days).

The other payables are with short-term durations. The carrying amounts are assumed to be a reasonable approximation of fair values.

NOTES TO FINANCIAL STATEMENT

year ended 31 March 2007

10. FINANCE LEASE LIABILITY

Group and Company	Total minimum lease payments 2007 RMB'000	Present value payments 2007 RMB'000	Total minimum lease payments 2006 RMB'000	Present value payments 2006 RMB'000
Not later than one year	91	67	–	–
Later than one year but not later than five years	363	307	–	–
Later than five years	98	96	–	–
Total minimum lease payments	552	470		–
Less amounts representing finance charges	(82)	–	–	–
Present value of minimum lease payments	470	470	–	–
Disclosed as :				
Current liabilities		67		–
Non-current liability		403		–

The average lease term is 7 years. For the financial year ended 31 March 2007, the average effective borrowing rate is 6.61% (2006: Nil). There is an exposure to fair value interest risk because the interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments. All lease obligations are denominated in S$. The obligations under finance lease are secured by the lessor's charge over the leased assets.

The fair value of the lease liabilities approximates the carrying amounts.

11. SHARE CAPITAL

Ordinary shares		Group and Company Number of shares	Issued share capital S$	Issued share capital RMB
Ordinary shares of no par value				
Balance at beginning of year 1 April 2005		2,000,000	2,000,000	10,000,000
Bonus share issue	(a)	5,000,000	5,000,000	24,687,000
		7,000,000	7,000,000	34,687,000
Sub-division of shares	(b)	175,000,000	7,000,000	34,687,000
Balance at beginning of year 1 April 2006		175,000,000	7,000,000	34,687,000
Issue of new shares		59,000,000	18,880,000	94,247,072
Share issue expenses		–	(2,421,015)	(12,085,465)
Balance at end of year 31 March 2007		234,000,000	23,458,985	116,848,607

NOTES TO FINANCIAL STATEMENT

year ended 31 March 2007

11. SHARE CAPITAL (Cont'd)

During the financial year ended 31 March 2006:

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

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

On 17 April 2006, the Company was admitted to the official list of the SGX-ST. The Company issued a total of 59 million new shares at S$0.32 each. The proceeds of the Initial Public Offering (IPO) amounting to S$18.88 million were capitalised as the Company's issued and paid up capital, after deducting IPO expenses of approximately S$2.4 million or RMB 12.1 million. The IPO expenses include professional fee of S$320,588 paid to the Company's auditors in relation to the IPO.

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

The ordinary shares of no par value carry no right to fixed income and are fully paid. The Company is not subject to any externally imposed capital requirements.

12. RESERVES

	Group		Company	
	2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000
Foreign currency translation reserve	712	77	2,599	77
Statutory reserve (*)	14,870	10,206	–	–
Retained earnings	88,031	50,489	(6,818)	(645)
	103,613	60,772	(4,219)	(568)

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

13. REVENUE

	Group	
	2007 RMB'000	2006 RMB'000
Sale of goods	181,391	155,745

NOTES TO FINANCIAL STATEMENT

year ended 31 March 2007

14. FINANCIAL INCOME AND (EXPENSE)

	Group 2007 RMB'000	Group 2006 RMB'000
Financial income:		
Interest income	217	9
Foreign exchange gain	4	–
	221	9
Financial expense:		
Bank interest expense	(4)	(937)
Finance lease interest expense	(25)	–
	(29)	(937)

15. OTHER CREDITS / (CHARGES)

	Group 2007 RMB'000	Group 2006 RMB'000
Plant and equipment written-off	(98)	–

16. INCOME TAX EXPENSE

	Group 2007 RMB'000	Group 2006 RMB'000
Current tax expense	3,221	–

The income tax expense varied from the amount of income tax expense determined by applying the Singapore income tax rate of 18.0% (2006: 20.0%) to profit before income tax as a result of the following differences:

NOTES TO FINANCIAL STATEMENT

year ended 31 March 2007

16. INCOME TAX EXPENSE (Cont'd)

	Group	
	2007 RMB'000	2006 RMB'000
Profit before taxation	45,427	54,081
Income tax expense at statutory rate	8,177	10,816
Non-allowable items	1,475	182
Effect of different tax rate in foreign country	8,040	7,149
Tax exemptions	(14,471)	(18,147)
Total income tax expense	3,221	–

Under the Income Tax Law of the PRC Concerning Foreign Investment Enterprises and Foreign Enterprises and various local income tax laws, foreign investment enterprises are subject to the statutory income tax rate of 33% (30% state income tax plus 3% local income tax) unless the enterprises are located in specially designated regions or cities in which more favourable tax rates will apply. The subsidiary of the Group is located in a region where the tax rate of 33% applies. The subsidiary is entitled to income tax exemption for the two years commencing from the first profitable year (after deducting losses carried forward) and a 50% reduction for the succeeding three years. From January 2007, the subsidiary is subject to tax at half the prevailing state income tax rate but would still be fully exempted from the local income tax.

There are no deferred tax amounts.

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

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

17. EMPLOYEE BENEFITS EXPENSE

	Group	
	2007 RMB'000	2006 RMB'000
Employee benefits expense	15,249	9,420
Contributions to defined plans	1,531	2,161
Total employee benefits expense	16,780	11,581

NOTES TO FINANCIAL STATEMENT

year ended 31 March 2007

18. ITEMS IN THE INCOME STATEMENT

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

	Group	
	2007 RMB'000	2006 RMB'000
Non-audit fees paid to the statutory auditors of the subsidiary included under administrative expenses	33	50

19. EARNINGS PER SHARE FROM CONTINUING OPERATIONS

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

	Group	
	2007 RMB'000	2006 RMB'000
The calculation of earnings per share is as follows:		
Net profit attributable to members of the Company (RMB'000)	42,206	54,081
Weighted average number of ordinary shares on issue for basic earnings per share ('000)	231,414	175,000

The Company and Group do not have any discontinued operations.

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

20. OPERATING LEASE PAYMENT COMMITMENTS

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

	Group		Company	
	2007 RMB'000	2006 RMB'000	2007 RMB'000	2006 RMB'000
Within 1 year	2,015	3,000	265	–
Within 2 – 5 years	22	1,750	22	–
Rental expense	3,253	3,000	253	–

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

NOTES TO FINANCIAL STATEMENT

year ended 31 March 2007

21. CAPITAL COMMITMENTS

	Group		Company	
	2007	2006	2007	2006
	RMB'000	RMB'000	RMB'000	RMB'000
Estimated amounts committed at the balance sheet date for future capital expenditure but not recognised in the financial statements	7,832	–	–	–

22. STATEMENT OF OPERATIONS BY SEGMENT

Segment reporting policy:

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

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

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

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

During the financial year, the Group has classified its business segments into four major operating segments according to the usage of the commercial explosive products. The four segments are explosives devices, industrial fuse and initiating explosives devices, industrial detonators and others. The comparatives have been re-presented to conform with current year's presentation.

NOTES TO FINANCIAL STATEMENT

year ended 31 March 2007

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

Business segments

The Group has four major operating segments classified according to the usage of our commercial explosive products. The four segments are explosives devices, industrial fuse and initiating explosives devices, industrial detonators and others.

31 March 2007	Explosives devices RMB'000	Industrial fuse and initiating devices RMB'000	Industrial detonators RMB'000	Others RMB'000	Total RMB'000
Revenue	90,188	68,669	21,674	860	181,391
Segmental results	21,807	36,759	6,549	180	65,295
Financial income					221
Financial expenses					(29)
Unallocated corporate expenses					(20,060)
Profit before taxation					45,427
Income tax expenses					(3,221)
Net profit attributable to shareholders					42,206
Other information:					
Segmental assets	14,035	3,993	6,599	–	24,627
Unallocated corporate assets					232,131
Total assets					256,758
Segmental liabilities	390	265	603	–	1,258
Unallocated segmental liabilities					35,038
Total liabilities					36,296
Capital expenditure	12,351	49	2,107	–	14,507
Unallocated capital expenditure					4,314
Total capital expenditure					18,821
Depreciation	886	299	298	–	1,483
Unallocated depreciation					727
Total depreciation					2,210
Non-cash expenses other than depreciation	2	74	22	–	98

NOTES TO FINANCIAL STATEMENT

year ended 31 March 2007

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

Business segments (Cont'd)

31 March 2006	Explosives devices RMB'000	Industrial fuse and initiating devices RMB'000	Industrial detonators RMB'000	Others RMB'000	Total RMB'000
Revenue	89,170	47,393	18,516	666	155,745
Segmental results	31,479	26,645	7,323	666	66,113
Financial income					9
Financial expenses					(937)
Unallocated corporate expenses					(11,104)
Profit before taxation					54,081
Income tax expenses					–
Net profit attributable to shareholders					54,081
Other information:					
Segmental assets	4,193	4,270	2,418	–	10,881
Unallocated corporate assets					127,817
Total assets					138,698
Segmental liabilities	360	306	368	–	1,034
Unallocated segmental liabilities					42,205
Total liabilities					43,239
Capital expenditure	20	92	237	–	349
Unallocated capital expenditure					528
Total capital expenditure					877
Depreciation	244	304	264	–	812
Unallocated depreciation					122
Total depreciation					934
Non-cash expenses other than depreciation					–

NOTES TO FINANCIAL STATEMENT

year ended 31 March 2007

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

Geographical segments

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

31 March 2007

	Revenue RMB'000	Segment Assets RMB'000	Capital Expenditure RMB'000
Within PRC	109,858	255,576	17,744
Outside PRC:			
Sales through export distributors	38,624	–	–
United States of America	–	–	–
Australia	23,742	–	–
Singapore	–	1,182	1,077
Others	9,167	–	–
	181,391	256,758	18,821

31 March 2006

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

(*) Others include Kyrgyzstan, South Africa and Pakistan.

NOTES TO FINANCIAL STATEMENT

year ended 31 March 2007

23. SIGNIFICANT SUBSEQUENT EVENTS

No matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations, the result of those operations, or the state of affairs of the Company and the Group.

24. CHANGES AND ADOPTION OF FINANCIAL REPORTING STANDARDS

For the year ended 31 March 2007 the following new or revised Singapore Financial Reporting Standards were adopted for the first time. The new or revised standards did not require material modification of the and measurement method or the presentation in the financial statements.

FRS No.	Title
FRS 1	Presentation of Financial Statements
FRS 16	Property, Plant and Equipment
FRS 19	Employee Benefits - Amendments relating to actuarial gains and losses, group plans and disclosures (*)
FRS 21	The Effects of Changes in Foreign Exchange Rates - Amendments relating to net investment in a foreign operation
FRS 24	Related Party Disclosures
FRS 32	Financial Instruments: Disclosure and Presentation
FRS 37	Provisions, Contingent Liabilities and Contingent Assets
FRS 38	Intangible Assets
FRS 39	Financial Instruments: Recognition and Measurement - Amendments relating to cash flow hedge accounting of forecast intragroup transactions Amendments relating to financial guarantee contracts (*)
FRS 101	First-time Adoption of Financial Reporting Standards - Amendments relating to comparative disclosures for FRS 106 Exploration for and Evaluation of Mineral Resources(*)
FRS 101	Implementation Guidance (*)
FRS 104	Insurance Contracts (*)
FRS 104	Implementation Guidance (*)
FRS 106	Exploration for and Evaluation of Mineral Resources (*)
INT FRS 104	Determining whether an Arrangement contains a Lease
INT FRS 105	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds (*)
INT FRS 107	Applyinghe Restatement Approach under FRS 29 Financial Reporting in Hyperinflationary Economies
INT FRS 108	Scope of FRS 102 (*)
INT FRS 109	Reassessment of Embedded Derivatives (*)
INT FRS 110	Interim Financial Reporting and Impairment

(*) Not relevant to the entity.

25. FUTURE CHANGES IN ACCOUNTING STANDARDS

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

FRS No.	Title	Effective date for periods beginning on or after
FRS 1	Presentation of Financial Statement - Amendments relating to capital disclosures	1.1.2007
FRS 10	Events after the Balance Sheet Date	1.1.2007
FRS 12	Income Taxes	1.1.2007
FRS 14	Segment Reporting	1.1.2007
FRS 17	Leases	1.1.2007
FRS 19	Employee Benefits	1.1.2007
FRS 32	Financial Instruments: Presentation	1.1.2007
FRS 33	Earnings per Share	1.1.2007
FRS 39	Financial Instruments: Recognition and Measurement	1.1.2007
FRS 39	Implementation Guidance	1.1.2007
FRS 40	Investment Property (*)	1.1.2007
FRS 101	First-time Adoption of Financial Reporting Standards	1.1.2007
FRS 101	Implementation Guidance	1.1.2007
FRS 102	Share-based Payment (*)	1.1.2007
FRS 103	Business Combinations	1.1.2007
FRS 104	Insurance Contracts (*)	1.1.2007
FRS 104	Implementation Guidance - Revisions relating to FRS 107 Financial Instruments: Disclosures (*)	1.1.2007
FRS 107	Financial Instruments: Disclosures - Implementation Guidance	1.1.2007
FRS 108	Operating Segments	1.1.2009
INT FRS 105	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds (*)	1.1.2007
INT FRS 111	FRS102 - Group and Treasury Share Transactions (*)	1.3.2007
INT FRS 112	Service Concessions Arrangements (*)	1.1.2008

(*) Not relevant to the entity.

STATISTICS OF SHAREHOLDINGS

as at 13 June 2007

Distribution of Shareholdings

Size of Shareholdings	No. of Shareholders	%	No. of Shares	%
1– 999	0	0.00	0	0.00
1,000– 10,000	776	54.84	5,339,000	2.28
10,001– 10,000	624	44.10	28,752,000	12.29
1,000,001 and above	15	1.06	199,909,000	85.43
Total :	1,415	100.00	234,000,000	100.00

Twenty Largest Shareholders

No.	Name	No. of Shares	%
1	Fortsmith Investments Limited	75,700,000	32.35
2	DNX Australia Pty Limited	69,966,000	29.90
3	Fivestar Limited	22,334,000	9.54
4	Lombard Inc	7,000,000	2.99
5	HL Bank Nominees (S) Pte Ltd	4,675,000	2.00
6	Citibank Nominees Singapore Pte Ltd	3,000,000	1.28
7	Morgan Stanley Asia (S'pore) Securities Pte Ltd	2,653,000	1.13
8	Bank of China Nominees Pte Ltd	2,597,000	1.11
9	Raffles Nominees Pte Ltd	2,232,000	0.95
10	OCBC Securities Private Ltd	2,035,000	0.87
11	Merrill Lynch (S'pore) Pte Ltd	2,021,000	0.86
12	United Overseas Bank Nominees Pte Ltd	1,841,000	0.79
13	UOB Kay Hian Pte Ltd	1,467,000	0.63
14	Citibank Consumer Nominees Pte Ltd	1,378,000	0.59
15	Chua Sek How	1,010,000	0.43
16	Phillip Securities Pte Ltd	912,000	0.39
17	Tan Geok Bee	730,000	0.31
18	DBS Nominees Pte Ltd	582,000	0.25
19	Hong Pian Tee	500,000	0.21
20	Ng Cheng Choh	470,000	0.20
Total :		203,103,000	86.78

STATISTICS OF SHAREHOLDINGS

as at 13 June 2007

Substantial shareholders

Substantial shareholders of the Company (as recorded in the Register of Substantial Shareholders) as of 13 June 2007.

	No. of Ordinary shares			
	Direct Interest	%	Indirect Interest	%
Fortsmith Investments Limited	75,700,000	32.35%	–	–
DNX Australia Pty Limited	69,966,000	29.90%	–	–
Fivestar Limited	22,334,000	9.54%	–	–
Sun Bowen (1)	–	–	75,700,000	32.35%
Dr. Lim Seck Yeow (2)	–	–	22,334,000	9.54%
Tan Geok Bee (3)	730,000	0.31%	22,334,000	9.54%

Notes:

(1) Mr Sun Bowen is deemed to be interested in the shares held by Fortsmith Investments Limited by virtue of Section 7 of the Singapore Companies Act.

(2) Dr. Lim Seck Yeow is deemed to be interested in the shares held by Fivestar Limited by virtue of Section 7 of the Singapore Companies Act.

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

Free Float

As at 13 June 2007, approximately 25.2% of the issued ordinary shares of the Company was held in the hands of the public (on the basis of information available to the Company).

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

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the Annual General Meeting of FABCHEM CHINA LIMITED will be held at 39 Fishery Port Road, Singapore 619745 on Monday, 23 July 2007 at 9.30 a.m. for the following purposes:-

AS ORDINARY BUSINESS

1. To receive and, if approved, to adopt the Audited Accounts of the Company for the financial year ended 31 March 2007 together with the Directors' Report and Auditors' Report thereon. **Resolution 1**

2. To declare a First & Final Dividend of 0.5302 Singapore cents per Ordinary Share, one-tier tax exempt, for the financial year ended 31 March 2007 as recommended by the Directors. **Resolution 2**

3. To approve Directors' Fees of S$187,000 for the financial year ended 31 March 2007. **Resolution 3**

4. To re-elect Mr Bao Hongwei who is retiring under Article 107 of the Articles of Association. **Resolution 4**

5. To re-elect Mr Lim Hui Min John who is retiring under Article 107 of the Articles of Association. **Resolution 5**

6. To re-elect Mr Shane Gannon who is retiring under Article 117 of the Articles of Association. **Resolution 6**

7. To re-elect Mr Anthony Kutra who is retiring under Article 117 of the Articles of Association. **Resolution 7**

8. To re-elect Mr Wong Joo Wan who is retiring under Article 117 of the Articles of Association. **Resolution 8**

9. To re-appoint Messrs RSM Chio Lim, Certified Public Accountants, as auditors of the Company and to authorise the Directors to fix their remuneration. **Resolution 9**

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

AS SPECIAL BUSINESS

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

11. AUTHORITY TO ALLOT AND ISSUE SHARES

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

NOTICE OF ANNUAL GENERAL MEETING

Notes :-

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

A proxy need not be a member of the Company.

The instrument appointing a proxy must be deposited at the Company's registered office at 36 Carpenter Street, Singapore 059915 at least 48 hours before the time of the Meeting.

(ii) If re-elected under Resolution 4, Mr Bao Hongwei will remain as an Executive Director of the Company.

(iii) If re-elected under Resolution 5, Mr Lim Hui Min John will remain as an Independent Director of the Company, Chairman of the Audit Committee, a member of the Nominating Committee and of the Remuneration Committee.

(iv) If re-elected under Resolution 6, Mr Shane Gannon will remain as Non-Executive Director of the Company.

(v) If re-elected under Resolution 7, Mr Anthony Kutra will remain as Non-Executive Director of the Company.

(vi) If re-elected under Resolution 8, Mr Wong Joo Wan will remain as an Independent Director of the Company.

(vii) Resolution 10, if passed, will empower the Directors of the Company to issue shares and convertible securities in the Company up to a maximum of fifty percent (50%) of the issued share capital of the Company (of which the aggregate number of shares and convertible securities to be issued other than on a pro rata basis to existing shareholders shall not exceed twenty percent (20%) of the issued share capital of the Company) for such purposes as they consider would be in the interests of the Company. This authority will continue in force until the next Annual General Meeting of the Company or the expiration of the period within which the next Annual General Meeting is required by law to be held, whichever is the earlier, unless the authority is previously revoked or varied at a general meeting.

NOTICE OF ANNUAL GENERAL MEETING

law to be held, whichever is the earlier, unless the authority is previously revoked or varied at a general meeting. For the purposes of this resolution, the percentage of issued share capital shall be based on the Company's issued share capital at the time of the passing of this resolution after adjusting for:-

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

(b) any subsequent consolidation or subdivision of shares. **Resolution 10**

BOOKS CLOSURE AND DIVIDEND PAYMENT DATES

NOTICE IS ALSO HEREBY GIVEN that the Ordinary Shares Transfer Books and Register of Members of the Company will be closed on 10 August 2007 for the purposes of determining shareholders' entitlements to the proposed first and final dividend of 0.5302 Singapore cents per ordinary share, one-tier tax exempt, for the financial year ended 31 March 2007.

Duly completed and stamped transfers received by the Company's Share Registrars, Lim Associates (Pte) Ltd, 3 Church Street #08-01, Samsung Hub, Singapore 049483, up to 5 p.m. on 8 August 2007 will be registered before shareholders' entitlements to the first and final dividend are determined. Shareholders (being depositors) whose securities accounts with The Central Depository (Pte) Limited are credited with ordinary shares as at 5 p.m. on 8 August 2007 will be entitled to the proposed first and final dividend.

The first and final dividend, if approved by the shareholders at the Annual General Meeting of the Company, will be paid on 30 August 2007.

BY ORDER OF THE BOARD

....
TAN MIN-LI
COMPANY SECRETARY

Date : 6 July 2007

SINGAPORE

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PROXY FORM

FABCHEM CHINA LIMITED

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

IMPORTANT:

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

I/We ____

of ____

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

Name	Address	NRIC/ Passport No.	Proportion of Shareholdings (%)
and/or (delete as appropriate)			

as my/our proxy/proxies to attend and to vote for me/us on my/our behalf at the Annual General Meeting of the Company to be held at 39 Fishery Port Road, Jurong, Singapore 619745 on Monday, 23 July 2007 at 9.30 a.m. and at any adjournment thereof. I/We direct my/our proxy to vote for or against the Resolutions to be proposed at the Meeting as hereunder indicated.

No.	Ordinary Resolutions	For	Against
	Ordinary Business		
1.	To adopt the Audited Accounts, Directors' Report and Auditors' Report		
2.	To declare a First & Final Dividend of 0.5302 Singapore cents per ordinary share, one-tier tax exempt, for the financial year ended 31 March 2007 as recommended by the Directors		
3.	To approve the payment of Directors' Fees for the financial year ended 31 March 2007		
4.	To re-elect Mr Bao Hongwei as a Director under Article 107		
5.	To re-elect Mr Lim Hui Min John as a Director under Article 107		
6.	To re-elect Mr Shane Gannon as a Director under Article 117		
7.	To re-elect Mr Anthony Kutra as a Director under Article 117		
8.	To re-elect Mr Wong Joo Wan as a Director under Article 117		
9.	To re-appoint Auditors and authorise Directors to fix their remuneration		
	Special Business		
10.	To authorize Directors to allot shares pursuant to Section 161 of the Companies Act, Cap. 50 and Rule 806 of the Listing Manual of the Singapore Exchange Securities Trading Limited		

Dated this ....day of .... 2007.

No. of Shares Held

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

IMPORTANT: PLEASE READ NOTES OVERLEAF

Notes to the Proxy Form

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

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

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

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

5. The instrument appointing a proxy or proxies together with the letter of power of attorney, if any, under which it is signed or a duly certified copy thereof, must be deposited at the registered office of the Company at 36 Carpenter Street, Singapore 059915 at least 48 hours before the time appointed for the Annual General Meeting.

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

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

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

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

CORPORATE INFORMATION

BOARD OF DIRECTORS

Dr Lim Seck Yeow	Non-executive Chairman
Sun Bowen	Managing Director
Bao Hongwei	Executive Director
Shane Gannon	Non-executive Director
Anthony Kutra	Non-executive Director
Ong Tai Tiong Desmond	Independent Director
Lim Hui Min John	Independent Director
Wong Joo Wan	Independent Director

NOMINATING COMMITTEE

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

REMUNERATION COMMITTEE

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

AUDIT COMMITTEE

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

COMPANY SECRETARY

Tan Min-Li, LLB (Hons), LLM

MAILING ADDRESS

39 Fishery Port Road, Jurong
Singapore 619745

REGISTERED OFFICE

36 Carpenter Street
Singapore 059915
Tel: (65) 6323 8383
Fax: (65) 6323 8282

COMPANY REGISTRATION NUMBER

200413128G

REGISTRAR AND SHARE TRANSFER OFFICE

Lim Associates (Pte) Ltd
3 Church Street #08-01
Samsung Hub
Singapore 049483

INDEPENDENT AUDITORS

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

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

PRINCIPAL BANKERS

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

FABCHEM CHINA LIMITED
39 Fishery Port Road, Jurong Singapore 619745
Tel: (65) 6265 5918   Fax: (65) 6268 2447
www.fabchemchina.com

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Tel: (65) 63278398