



FABCHEM CHINA LIMITED



ANNUAL REPORT

2014



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As the only China-based commercial explosives manufacturer with a listing status overseas, Fabchem China Limited (“Fabchem”) has been established in Shandong, China since 1979, and listed on the Mainboard of Singapore Exchange Securities Trading Limited in April 2006. As one of China’s leading manufacturers of initiation systems and the largest boosters and detonating cords producer within a highly regulated industry, Fabchem’s products are widely used in the mining, energy exploration, hydroelectric and infrastructure construction sectors. Our products include explosive devices (boosters and seismic charges), industrial fuse and initiating explosive devices (detonating cords and non-electric tubes), industrial detonators (non-electric detonators and piston non-electric detonators) as well as explosive-grade ammonium nitrate.

Fabchem’s subsidiary, Shandong Yinguang Technology Co., Ltd, is the pioneer and market leader in the production of boosters in China. 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 initiation system products of international-standard quality are sold to more than 150 customers in the mining, energy exploration, hydroelectric and infrastructure construction industries across more than 10 countries, including China, Australia, Indonesia, Mongolia, India, Kazakhstan and Kyrgyzstan. Fabchem’s products are sold under the brand name “Yinguang” in China, and also marketed internationally to other major resource-rich countries. As an established commercial explosives producer, the Group also undertakes original equipment manufacturing for renowned global commercial explosives companies.



KEY PRODUCTS



EXPLOSIVE DEVICES

Explosive devices, such as boosters and seismic charges. Boosters are used to enhance the power of the explosions, seismic charges are used mainly in oil and gas exploration.



INDUSTRIAL FUSE AND INITIATING EXPLOSIVE DEVICES

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

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.



EXPLOSIVE GRADE AMMONIUM NITRATE

Explosive-grade ammonium nitrate is one of the main raw materials to manufacture explosives.

Fabchem is among the first commercial explosive manufacturers to resume production, after receiving the safety clearance and production approval from the Chinese authorities, following a temporary "cease production" order due to an unrelated explosion accident that occurred in a commercial explosive manufacturing facility in the Shandong province.



Construction of additional detonating cords facilities completed with production capacity raised to approximately 60 million metres per annum



Additional investment of RMB 7.0 million to replace existing detonating cords facilities to improve production efficiencies and safety.

Despite a challenging business environment in FY2014, the board of directors is committed to return value to shareholders with a proposed special dividend of S\$0.002 per share



Steadfast

Sted•fast

/sted fast/

Adjective: resolutely or dutifully firm and unwavering

At Fabchem, we remained steadfast in our business focus amidst evolving challenges. Values such as safety and sustainability are always upheld to ensure that we are able to continue delivering long term value to all stakeholders.



LETTER TO SHAREHOLDERS



While strengthening our presence
in existing and new markets, we
will continue our efforts to improve
our operational excellence and cost
competitiveness

Dear Shareholders,

On behalf of the Board of Directors, I would like to present the Annual Report and Audited Financial Statements of Fabchem China Limited (“Fabchem” or “the Group”) for the financial year ended 31 March 2014 (“FY2014”).

FY2014 has been a challenging and tough year for the Group as the challenging market conditions of the global mining industry traces to the weak state of the global economy, particularly in China.

Commodity prices, led by gold’s greatest annual decline in over 30 years, decreased significantly and that has directly impact on the business performance of the global mining industry.

In addition, the Group experienced a loss of sales after an unrelated explosion accident occurred at a commercial explosive manufacturing plant within Shandong Province in May/June 2013. This resulted in heightened safety checks and controls, thereby curtailing our production capacities as mentioned in the profit warning announcement issued on 14 March 2014.

The conjunction of such factors has led to one of the most difficult business environments experienced by the Group.

The Group’s explosive-grade ammonium nitrate business continue to deteriorate as market-driven selling prices of ammonium nitrate and sales volume further deteriorated by approximately 15.9% and 22.6% respectively during FY2014, as compared to FY2013. Hence, it is projected that the Group’s ammonium nitrate business will continue to incur operating losses until market conditions improve. As such, the board of directors has determined that it is prudent to write down the value of its ammonium nitrate assets by RMB 60.0 million to ensure that the Group’s balance sheet reflect asset values conservatively.

Before this non-cash impairment charge of RMB 60.0 million, the Group registered a net profit of RMB 2.5 million. And while this impairment charge does not impact our cash flow and liquidity position, our financial performance was directly affected and for the very first time since our establishment, we recorded a full year net loss position.

We have a monumental task ahead and we will calibrate our business strategies to adapt to the evolving challenges and forge ahead with our cost-savings, productivity and safety initiatives. While there is a significant trade-off between safety costs and productivity in this highly specialised and regulated industry, safety remains our top priority and we believe that this will enable us to achieve the long-term benefit of operational sustainability.

We continue to believe in the long-term opportunities within this niche market and with our established strengths and strong financial foundation, we will be well-positioned to augment our market presence when market conditions improve.

Proposed Special Dividend of S\$0.002 per Ordinary Share

While FY2014 has been a year of business challenges for the Group, the board of directors remains committed to return value to our shareholders.

Guided by a prudent capital allocation framework, the board of directors has recommended a special dividend payout of S\$0.002 per share for FY2014. This proposed special dividend payout is subject to the approval by shareholders during the forthcoming Annual General Meeting,

Review of Our Financial Performance

In light of the challenging business environment highlighted above, the Group experienced declining revenue contribution from all of its product segments except for industrial detonators.

Particularly, revenue from the Group's explosive-grade ammonium nitrate business segment declined 35.1% to RMB 85.1 million. Being a key contributor to the Group's revenue mix over the past three years, this had a significant impact and as a result, the Group's overall revenue in FY2014 dipped 19.6% to RMB 393.0 million.

While the Chinese market has on average accounted for more than 70% of the Group's overall revenue, the Group has proactively undertaken overseas marketing outreach activities and to diversify our revenue stream geographically.

On this front, Australia remains the key overseas market for the Group, accounting for approximately 82.2% of total overseas revenue of RMB 115.6 million. As an Original Equipment Manufacturer ("OEM") to global renowned commercial explosives players, such as Orica Limited and Dyno Nobel Group, the demand in Australia has been relatively resilient with Fabchem's reliable and cost-effective specialised products.

While the Group has achieved encouraging results from its continual focus on production efficiency initiatives, overall gross profit margin dipped by approximately 3.3 percentage points to 24.0% in FY2014, as compared to 27.3% in FY2013.

The lower gross profit margin was mainly attributed to the lower market-driven selling prices for ammonium nitrate, rising raw materials costs (such as PETN and RDX) and the temporary cease production directive during May/June 2013 during the current financial year under review, which increased our fixed costs per unit.

While operating expenses decreased in tandem with lower revenue in FY2014, financial costs increased due to the increase in bank loans obtained in relation to the acquisition of the Property at Fei County, Linyi City, Shandong Province, PRC where the Group's manufacturing facilities and warehouses (for the production of the Group's initiation systems products) are located. For further information, please refer to the Group's earlier announcements and the Circular to Shareholders dated 12 July 2011.

The Group's EBITDA in FY2014 dipped 42.2% to RMB 46.4 million from RMB 80.2 million in FY2013.

And as mentioned earlier, the non-cash impairment charge of RMB 60.0 million of our ammonium nitrate assets directly affected our financial performance and for the first time in our operating history, we recorded a full year net loss (of RMB 57.5 million).

Analysis of Our Balance Sheet

Over the past years, the Group has built up a progressive balance sheet with a prudent and conservative financial management policy. As at 31 March 2014, the Group's total assets stood at RMB 602.9 million with a gearing of 0.15x and a cash and cash equivalent position of RMB 99.5 million.

Trade receivables, another major component of current assets, stood at RMB 85.6 million as at end of March 2014. And despite the cooling Chinese economy, the Group has not experienced any issues with trade receivables collections in this highly specialised industry.

As at 31 March 2014, shareholders' equity stood at RMB 393.8 million, while net asset value per share stood at RMB 168.28 cents.

At the end of March 2014, the Group's total liabilities stood at RMB 209.1 million, of which the major portion was attributable to trade and other payables of RMB 108.8 million and other financial liabilities of RMB 90.2 million.

Cash Flow Highlights

The Group continues to generate strong cash flows from its business operations and for the financial year ended 31 March 2014, the Group recorded net cash generated from operating activities of approximately RMB 41.7 million, which was mainly attributed to an improved trade receivables collection from customers, decrease in prepayment for bulk purchase of raw materials.

Overall, the Group recorded a net cash outflow of RMB 20.5 million in FY2014 as net cash of approximately RMB 41.3 million and RMB 20.9 million was utilised in investing and financing activities respectively.

Adapting to Evolving Market Conditions

Underpinned by an unrelenting focus on safety, the Group's subsidiary, Shandong Yinguang Technology Co., Ltd adheres to stringent safety standards and this is a testament to our 35-year good safety track record, which is one of our hallmarks among domestic and overseas customers. And although there were increased safety checks by the authorities after the unrelated explosive accident, Fabchem passed all safety inspections swiftly and the Group is one of the first to resume commercial explosives production in Shandong Province.

Separately, while we are positioning Fabchem to be a strong leader in our various product segments, the near-term market conditions for commercial explosives and explosive-grade ammonium nitrate in China remain challenging and as such, construction of the Group's new explosive-grade ammonium nitrate production facilities has been temporarily halted.

Together with our strategic shareholder, Incitec Pivot Limited, we will continue to work together to cross-share valuable market information and working collaboration. Incitec Pivot Limited via its subsidiary Dyno Nobel which is the world's second largest commercial explosives manufacturer, owns a 29.9% stake in Fabchem.

Against the backdrop of the current challenging business environment, we will continue to take measured steps to enhance our competitive strength with the business resiliency to prepare for the challenges and opportunities ahead.

While the long-term trends of our underlying markets remain promising, our business environment will likely continue to experience volatility in the near term and as such, we continue to adopt a cautious outlook for FY2015.

In Recognition and Appreciation

On behalf of the Board, I would like to acknowledge the contributions by fellow Board Members for their insights and guidance from their diverse vast experience and expertise. At the same time, I am grateful to all our valued customers, suppliers, business associates, business partners and shareholders for their continued support and confidence.

To the management team and all our employees, thank you for your commitment and collective contribution as we steer Fabchem through such challenging times.

Thank You!



主席致辞

致敬爱的股东们：

我谨代表董事会，呈上中国杰化有限公司（“中国杰化”或“本集团”）截至2014年3月31日（“2014财政年度”）的年度报告以及审计财务报告。

2014财政年度是充满挑战的艰难一年。在全球经济的疲软状态下，采矿业的状况充斥着挑战，尤其是在中国。

而这也导致商品的价格锐减，尤其金价受到了三十年来前所未有的显著下滑，直接影响了全球采矿业市场的经营业绩。

此外，在2013年5月到6月期间，山东省的一家民爆生产企业车间发生了意外爆炸事故，虽然这起意外爆炸事故与本集团没有关联，本集团的销量仍受到冲击。这致使有关当局加强了对民爆生产企业的检查和监控，削减了我们的生产能力。以上的消息于2014年3月14日的利润预警中也有所提及。

受到以上因素的负面影响，导致本集团面临了有始以来最艰难的一次运营环境。

在低迷的市场驱动下，硝酸铵的价格一直处于下滑趋势，其炸药生产用硝酸铵的业务严重地受到冲击。硝酸铵的价格和销量同上财政年相比，分别下降约15.9%以及22.6%。因此，本集团的硝酸铵业务预计会持续蒙受营业损失直至市场情况有所好转为止。为确保本集团的资产负债表呈现保守的资产价值，董事会慎重地冲减了6000万元人民币的硝酸铵生产线固定资产的价值。

若把总值6000万元人民币的非现金减值损失排除在外，本集团应取得总值250万元人民币的净盈利。虽然减值损失并无对本集团的经营现金流量以及流动资金造成影响，但却直接冲击了我们的财政业绩，使得本集团的财政业绩自成立以来，首次全年业绩出现净亏损。

虽然本集团面对着艰巨的任务，但为了顺应未来的商业挑战，本集团会调整企业策略，并通过节约成本，提高生产量和加强安全措施向前迈进。在这个特殊行业和受到高度管制的行业里，安全措施和生产量之间难以权衡，但是安全必定是本集团优先考量的因素。我们坚信此信念将引领本集团取得长期的可持续增长。

本着既定的优势和稳定的经济基础，我们坚信能够在这一独特市场中取得长期的商机，有待市场情况改善后，我们的市场定位将能提升集团的表现。

建议派发每普通股 0.002新元的特别股息

虽然2014财政年度对本集团充满了挑战，但董事局仍然秉承着为股东们回馈的信念。

遵循着审慎的资本分配框架，董事会提议于2014财政年度里，派发每普通股 0.002新元的特别股息。此项建议派发的特别股息将有待在来临的年度股东大会上进行表决。

业绩回顾

鉴于上述的各种因素，业务市场处于低迷的状态。除了源自工业导爆管雷管产品的营业额有所上涨之外，本集团所有其他产品的营业额全面下滑。

本集团的炸药生产用硝酸铵业务的营业额下降了35.1%或8510万元人民币。作为本集团过去3年的主要营业额来源硝酸铵的收入受到严重打击，导致本集团的总营业额于2014财政年度下降了19.6%至3亿9300万元人民币。

中国市场占据了本集团总收入的70%以上，与此同时，为了扩大本集团的多区域发展和收益，本集团也积极地通过市场营销推广活动，把业务拓展到海外市场。

而澳大利亚仍是本集团主要的海外市场，占据了海外市场约82.2%的总收入，或1亿1560万元人民币。作为原装设备生产商（‘OEM’），本集团将OEM产品外销给全球著名的民爆器材公司，如澳大利亚澳瑞凯公司和代诺诺贝尔集团。中国杰化拥有可靠而具成本效益的专业产品，使其产品在澳大利亚市场中保持相对强劲的需求。

虽然本集团通过持续着重于提高生产效益的措施取得了令人鼓舞的成果，但是总毛利率仍从2013财政年度的27.3%下降至2014财政年度的24.0%，下滑了约3.3个百分点。

毛利率的下降主要是由于在低迷市场的驱动下，导致硝酸铵的价格下滑。此外，本集团也面临着原材料（如

太安以及黑索今)价格的上升压力。于财政年度审核期间,本集团曾于2013年5月6月期间暂停生产,造成固定成本的上升。

随着2014财政年度的营业额的下降,营销费用也同时下降。然而,银行贷款的增加使得财务费用上升。此贷款主要是为了收购分别位于中国山东省临沂市费县的土地以及房产,以便生产本集团的民爆器材。欲知更多详情,请参阅本集团之前的通告以及于2011年7月12日的股东通知书。

本集团的税息折旧以及摊销前利润(EBITDA)同2013财政年度的8020万元人民币相比,下降了42.6%至4640万元人民币。

如之前所述,硝酸铵的资产蒙受了总值6000万元的非现金减值损失,直接冲击了我们的财政业绩,使得本集团自开创以来,第一次蒙受5750万元人民币的全年亏损。

资产负债表分析

本集团采用保守财务管理模式为引导原则,取得了逐渐强化的资产负债表的成绩。截至2014年3月31日,本集团的总资产为6亿290万元人民币,负债比率为0.15倍,以及现金与现金等价物9950万元人民币。

截至2014年3月底,流动资产中的主要是应收账款为8560万元人民币。虽然中国经济有降温的趋势,由于行业特殊性,本集团的应收账款并不存在严重的问题。

截至2014年3月31日,股东权益为3亿9380万元人民币,每股的净资产价值为168.28分人民币。

截至2014年3月底,本集团的总负债为2亿910万元人民币,主要由应付及其他应付款的1亿880万元人民币以及9020万元人民币的其他财务负债组成。

现金流量摘要

截至财政年度2014年3月31日,本集团的经营活动产生强劲的净现金,净现金流量达约4170万元人民币。由经营活动所产生的净现金,主要是因为加强了应收账款和其他应收款项的管理、预付购买大量原材料的款项有所下降所致。

综上所述,于2014财政年度里,本集团取得了2050万元人民币的净现金流出量,而当中约4130万元人民币以及约2090万元人民币分别用于投资活动和融资活动。

适应变化的市场情况

本着安全第一的运营模式,本集团严格遵守安全标准。中国杰化的子公司,山东银光科技有限公司享有35年优良的安全记录,而这优异的成绩也为国内外顾客留下良好印象,成为本集团的标志之一。虽然之前发生了与本集团无关的意外爆炸事故,致使有关当局加强了安全检查,但是凭着优异的安全运营模式,本集团是于山东省内率先恢复生产的民爆生产企业之一。

虽然我们致力于把中国杰化的各类产品推向领导地位,但是目前中国的民爆器材和炸药生产用硝酸铵的市场前景仍充满挑战。鉴此,本集团将暂停扩建炸药生产用硝酸铵的生产设施。

本集团也会继续与战略性股东Incitec Pivot有限公司紧密合作,互相分享珍贵的市场信息。Incitec Pivot有限公司的子公司、也是全球第二大民爆器材公司,代诺诺贝尔集团,持有中国杰化29.9%的战略性股份。

针对当前充满挑战的经营环境下,我们将持续以谨慎的步伐提高集团的竞争力与应变能力,以为应对未来的挑战和机遇作好准备。

虽然我们对市场的长期发展势头依然保持乐观,但我们的业务市场在短期内将继续经历波动,我们对于2015财政年度的展望将继续采取谨慎的态度。

鸣谢

我谨代表董事会,向董事同仁通过其丰富经验和专业知识所给予的真知卓见和指导表达由衷的感激。与此同时,我也在此感谢我们的客户、供应商、生意伙伴以及股东们所不断给予支持和对于本集团的信任。

对于我们的管理层和全体员工,你们所付出的努力、所呈现的热忱无疑对本集团是很大的贡献,带领中国杰化度过目前艰难的时期。

谢谢!

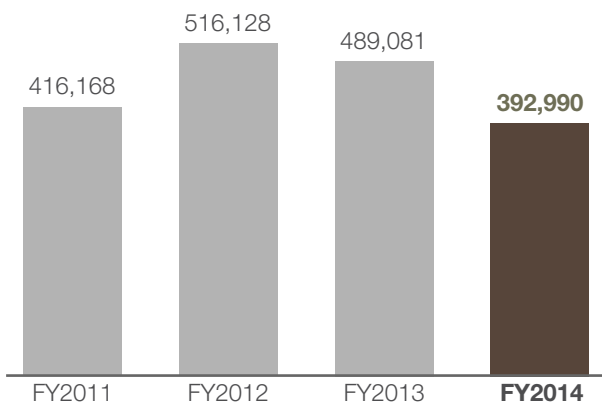
FINANCIAL HIGHLIGHTS

| FINANCIAL YEAR-END MARCH | FY2011 RMB'000 | FY2012 RMB'000 | FY2013 RMB'000 | FY2014 RMB'000 |
|--|-------------------|-------------------|-------------------|-------------------|
| REVENUE BY PRODUCT SEGMENTS | | | | |
| Explosive Devices | 95,887 | 131,160 | 165,541 | 126,227 |
| Industrial Fuse and Initiating Explosive Devices | 101,648 | 95,392 | 105,576 | 89,505 |
| Industrial Detonators | 73,749 | 87,406 | 85,802 | 91,678 |
| Ammonium Nitrate | 144,430 | 201,293 | 131,102 | 85,101 |
| Others | 454 | 427 | 1,060 | 479 |
| OPERATING RESULTS | | | | |
| Revenue | 416,168 | 516,128 | 489,081 | 392,990 |
| Gross Profit | 125,195 | 159,906 | 133,454 | 94,506 |
| Profit/(Loss) before Income Tax | 55,672 | 82,407 | 56,152 | (42,398) |
| Profit/(Loss) Attributable to Shareholders | 35,324 | 60,015 | 31,508 | (57,543) |
| Profit Attributable to Shareholders before impairment loss | 35,324 | 60,015 | 31,508 | 2,457 |
| EBITDA* | 74,164 | 103,645 | 80,244 | 46,377 |
| Balance Sheet | | | | |
| Non-Current Assets | 245,228 | 342,331 | 386,493 | 341,800 |
| Current Assets | 294,048 | 333,780 | 314,414 | 261,077 |
| Current Liabilities | 146,965 | 230,392 | 235,374 | 205,330 |
| Non-Current Liabilities | 5,477 | 5,313 | 5,144 | 3,781 |
| Shareholders' Equity | 386,834 | 440,406 | 460,389 | 393,766 |
| CASH FLOW | | | | |
| Net Cash From Operating Activities | 17,349 | 32,221 | 137,309 | 43,732 |
| Net Cash Used in Investing Activities | (10,920) | (25,080) | (158,144) | (43,331) |
| Net Cash (Used In)/From Financing Activities | (12,631) | (5,041) | 37,703 | (20,939) |

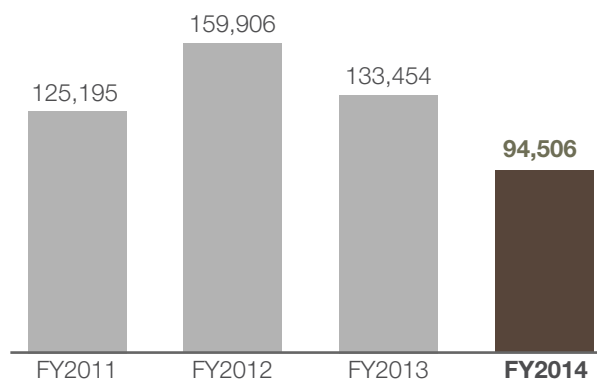
*Earnings before Interest, Tax, Depreciation, Amortisation and Impairment



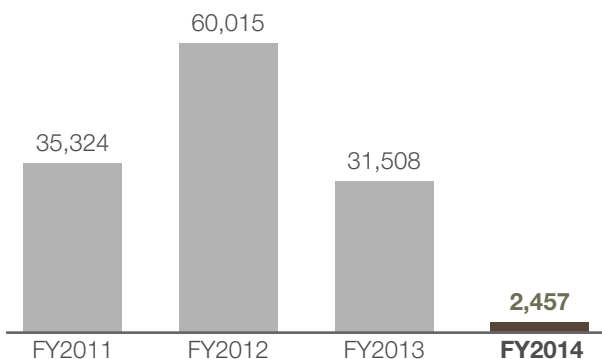
REVENUE
(RMB'000)



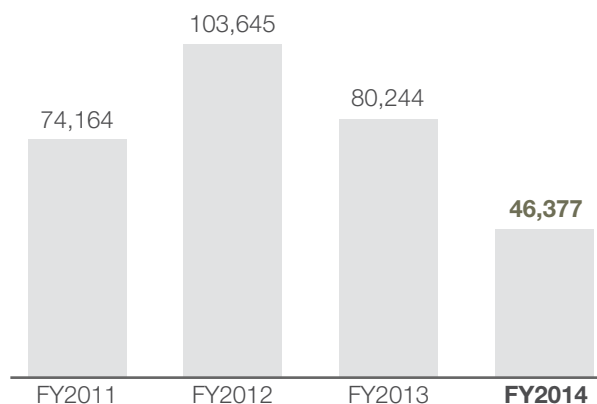
GROSS PROFIT
(RMB'000)



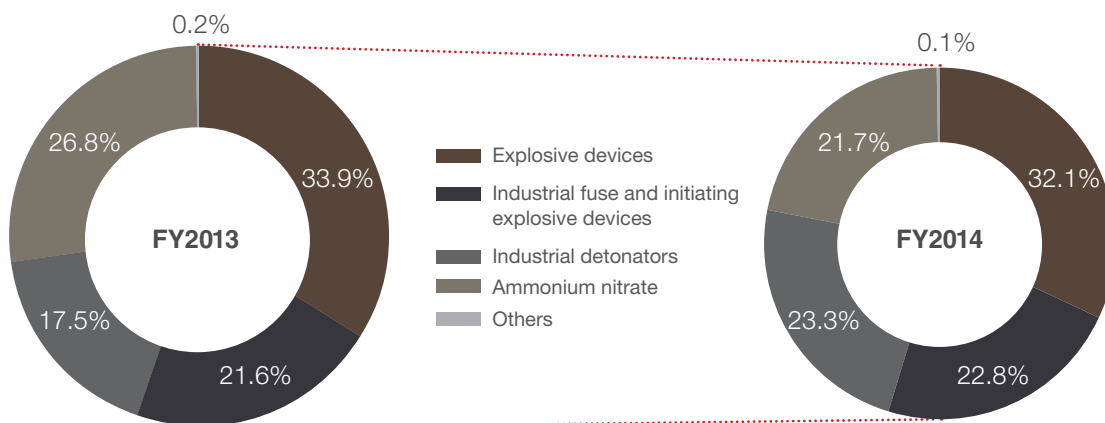
PROFIT ATTRIBUTABLE TO SHAREHOLDERS BEFORE IMPAIRMENT LOSS
(RMB'000)



EBITDA
(RMB'000)



REVENUE BY PRODUCT SEGMENTS





Fortitude

for•ti•tude

/fôrtə to od/

Noun: courage in pain or adversity

In times of difficulty, we need to look ahead and not overlook our vision and business objectives. Despite near-term challenging outlooks, we are continuing to take measures to improve our operational excellence and cost competitiveness. Fortitude will enable us to take significant steps in value creation as we move forward.

BOARD OF DIRECTORS



Dr. Lim Seck Yeow
Non-Executive Chairman

Dr. Lim Seck Yeow is our Non-Executive Chairman and was appointed on 12 October 2004. Dr. Lim started his career as an Assistant Stock Keeper with Cold Storage Limited and rose through the ranks to become its Sales Manager and eventually its Asia Regional Sales Manager. Dr. Lim 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 on 16 June 2005. He is responsible for the overall management and operations and is also responsible for formulating business strategies and policies for our Group. He has been with the 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 Shandong Yinguang Chemical Group Co., Ltd ("Yinguang Chemical Group"). He was also the director and general manager of 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. and Hebei Yinguang Chemical Co., Ltd.



Bao Hongwei
Executive Director / General Manager

Bao Hongwei is our General Manager and was appointed on 16 June 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.



Frankie Manuel Micallef
Non-Executive Director

Frankie Manuel Micallef is our Non-Executive Director and was appointed on 1 April 2012. Frankie Manuel Micallef is currently the Group Chief Financial Officer of Incitec Pivot Ltd and he joined Incitec Pivot Ltd in May 2008 as General Manager, Treasury and Chief Financial Officer, Trading. Prior to joining Incitec Pivot Ltd, he had significant experience in the explosives and mining industries as Global Treasurer and Investor Relations Manager at Orica Limited and General Manager Accounting at North Limited. Frankie Manuel Micallef holds a Bachelor of Business Degree (Accounting) from the Royal Melbourne Institute of Technology, a Master of Accounting Degree from the University of New England and is a Fellow of the CPA Australia, the Australian Institute of Company Directors and the Finance and Treasurers' Association.



Simon Hunter Atkinson

Non-Executive Director

Simon Hunter Atkinson is our Non-Executive Director and was appointed on 1 October 2013. Simon Atkinson was appointed to his current role as President, Dyno Nobel Asia Pacific and Global Technology, a business of Incitec Pivot Limited, in January 2014 and in that role, he is responsible for Dyno Nobel's operations in Australia, Indonesia, PNG and Europe and the Global Marketing and Technology function. Simon has a long and experienced history as a finance professional having held a number of commercial CFO positions and positions within the accounting profession. He has extensive commercial finance experience, having previously been Incitec Pivot's Deputy CFO and Investor Relations Manager (2006-2009), and Commercial Finance Manager for the Australian fertilisers business (2003-2006). In 2009, Simon was appointed Global CFO for Dyno Nobel and more recently was President of Dyno Nobel International (2010-2013) overseeing Dyno Nobel's international operations in emerging markets. Simon holds a Bachelor of Business from Deakin University Australia and is a Chartered Accountant (Australia).



Ong Tai Tiong Desmond

Lead Independent Director

Ong Tai Tiong Desmond is our Independent Director and was appointed on 17 February 2006. Mr Ong has been practicing with JLC Advisors LLP since April 2014. Mr Ong is also an independent director of Ecowise Holdings Limited as well as a director of Singapore Dance Theatre Ltd. Prior to his current appointment, he was practicing with Solitaire LLP Singapore. Mr Ong holds a Bachelor of Laws degree from the National University of Singapore.



Wee Phui Gam

Independent Director

Wee Phui Gam is our Independent Director and was appointed on 15 October 2009. Mr Wee is a practising Chartered Accountant of Singapore. He has been the sole-proprietor of P G Wee & Partners since 1984. P G Wee & Partners was converted to P G Wee Partnership LLP ("P G Wee"), an Accredited Training Organisation, in January 2013. He is also the managing partner of Y.C. Lee & Co ("Y.C. Lee"), a position he has held since 1990. P G Wee and Y.C. Lee are public accounting firms in Singapore. Mr Wee started his career in 1978 as an audit assistant with Foo, Kon & Tan, a public accounting firm in Singapore. Shortly after, he joined Peat Marwick Mitchell & Co, an international accounting firm as an audit assistant, becoming a Manager when he left some 6 years later, in 1984. Mr. Wee holds a Bachelor of Accountancy degree from the University of Singapore, a Fellow Member of the Institute of Chartered Accountants of Singapore and is an Accredited Tax Advisor (Income Tax & GST). He is a member of the Anderson Junior College School Advisory Committee.



Professor Jiang Rongguang

Independent Director

Professor Jiang Rongguang is our Independent Director and was appointed on 11 October 2010. Professor Jiang is an industry veteran with over 30 years of experience in China's commercial explosives industry. He is currently a Professor with Nanjing University of Science and Technology (南京理工大学) and also the chief technical specialist with National Quality Supervision and Inspection Center for Industrial Explosive Materials (国家民用爆破器材质量监督检验中心首席技术专家) ("NQSIC"), where he previously had served as permanent deputy chairman. Authorised by the Chinese government quality assurance and certification agencies, NQSIC provides independent assessments and certifications of commercial explosives products manufactured in China.

Professor Jiang is also currently serving as a member in the Experts Committee of Commercial Explosives Industry of China (国家民爆器材行业专家委员会委员) and also as a member in the Safety Experts Committee of Ministry of Industry and Information Technology of the People's Republic of China (中华人民共和国工业和信息化部民爆器材行业安全专家委员会委员) ("MIIT"). Among others, MIIT is tasked with the supervision and governing of commercial explosives' production and manufacturing activities in China.

Professor Jiang graduated from Nanjing University of Science and Technology (南京理工大学) in 1978, majoring in the design and development of explosive devices.



Pursuit

pur·suit

/pər soʊt/

Noun: the action of following or pursuing something

Building upon more than 3 decades of safety track record, we dedicate ourselves to greater excellence in this highly specialized business. Learning the important lessons of the business across more than 30 years, we will adopt the time-honored principles to overcome adversities and pursue greater progress.

KEY MANAGEMENT

Chen Rui

Senior Manager - Safety, Technology & Integration

Chen Rui is our Senior Manager – Safety, Technology & Integration. He is responsible for the production, safety, technology and the production 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 a Bachelor of Science – Mining Engineering English. Chen Rui was a bulk explosives plant manager with An Tai Bao Joint Venture Coal Mine. He was later employed by Dyno Nobel 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. Sun Qiang 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.

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. 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 multinational companies. From December 2000 to December 2002, he was a Senior Audit Assistant with BDO LLP (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 Chartered Accountant of Singapore and fellow member of the Association of Chartered Certified Accountants in UK.

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 Xingdong

Administrative Manager

As Administrative Manager, Yang Xingdong is responsible for the administrative function of our Group. 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.



BOARD OF DIRECTORS

Dr. Lim Seck Yeow Non-Executive Chairman
Sun Bowen Managing Director
Bao Hongwei Executive Director/ General Manager
Frankie Manuel Micallef Non-Executive Director
Simon Hunter Atkinson Non-Executive Director
Ong Tai Tiong Desmond Lead Independent Director
Wee Phui Gam Independent Director
Professor Jiang Rongguang Independent Director

NOMINATING COMMITTEE

Ong Tai Tiong Desmond *Chairman*
Dr. Lim Seck Yeow
Wee Phui Gam

REMUNERATION COMMITTEE

Ong Tai Tiong Desmond *Chairman*
Dr. Lim Seck Yeow
Wee Phui Gam

AUDIT COMMITTEE

Wee Phui Gam *Chairman*
Ong Tai Tiong Desmond
Dr. Lim Seck Yeow

COMPANY SECRETARY

Tan Min-Li, LLB (Hons), LLM

MAILING ADDRESS

2 Bukit Merah Central
#12-03
Singapore 159835

REGISTERED OFFICE

80 Robinson Road
#02-00
Singapore 068898
Tel: (65) 6236 3333
Fax: (65) 6236 4399

COMPANY REGISTRATION NUMBER

200413128G

REGISTRAR AND SHARE TRANSFER OFFICE

Boardroom Corporate & Advisory Services Pte. Ltd.
50 Raffles Place
#32-01
Singapore Land Tower
Singapore 048623

INDEPENDENT AUDITORS

RSM Chio Lim LLP
Certified Public Accountants, Singapore
(Member of RSM International)
8 Wilkie Road
#03-08
Wilkie Edge
Singapore 228095

Partner-in-charge:

Goh Swee Hong, CPA

Appointment with effect from financial year ended 31 March 2010

PRINCIPAL BANKERS

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

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SAFETY AND SECURITY COMPLIANCE

SAFETY MEASURES

The safety of our operations is of paramount importance to us. We have manuals 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 sixteen staff who are tasked mainly with ensuring compliance at each level of operation 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. In addition, we have implemented international best practice systems to encourage employees' participation in identifying risk hazards and increasing the level of awareness of those risk hazards. 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. Production could be suspended for investigation by the relevant authorities in the event of any accidental explosions at our production or storage facilities, during the transportation of raw materials or during the usage of our products by the end-users. If investigation showed that the accident is due to a failure to comply with proper safety measures and procedures, corrective actions must be taken. The authorities can revoke our licenses to manufacture explosive products if no improvement is made subsequent to the suspension period. In view of the above reasons and in order to provide the safest possible environment for our staff, 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 to a 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 stressed upon all our staff on a regular basis and extensive training sessions are organized regularly to educate and train our staff in our safety measures. All our new staff are rigorously trained and briefed on our safety measures before they commence work at our production facilities. Posters on our safety measures are put up throughout 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 ready 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 Ministry of Industry and Information Technology, Department of Work Safety ("MIIT"), 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 MIIT. 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 minimize 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 are distinguished from normal trucks by their yellowish orange colour and their prominent “Explosive” labels to 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, the relevant authorities also conduct safety checks on our operations and provide their opinions and recommendations. After the checks, any issues were promptly rectified. Following the explosive accident that occurred at an unrelated commercial explosives manufacturing plant in Shandong, the authorities heightened safety checks. Safety checks by the authorities for the financial year are described below:-

- a) MIIT conducts random inspection on our factory and warehouse safety procedures every year.
- b) The Commission of Science and Technology of Shandong conducted nine inspections on our factory and warehouse safety procedures.
- c) The Linyi Economic and Information Technology Committee conducted a total of seven inspections on our factory and warehouse safety procedures.
- d) Fei County Economic & Information Technology Bureau conducted a total of eight inspections on our factory and warehouse safety procedures.

SECURITY MEASURES

The Group has strict security measures in place to prevent loss or theft of explosives 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 2014, we had a security team comprising 145 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. As testament to 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.



SAFETY AND SECURITY COMPLIANCE

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

- a) The local Public Security Bureau regularly inspects our factory and warehouse security procedures. 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.



CORPORATE GOVERNANCE REPORT

Fabchem China Limited (the “Company”) is strongly committed to maintaining a high standard of corporate governance within the Company and its subsidiaries, Shandong Yinguang Technology Co., Ltd and Hebei Yinguang Chemical Co., Ltd (the “Subsidiaries”) (collectively the “Group”). The board of directors of the Company (the “Board”) recognises the importance of good corporate governance and the offering of high standards of accountability to the shareholders.

This report describes the Company’s corporate governance processes and structures that were in place throughout the financial year, with specific reference made to the principles and guidelines of the Code of Corporate Governance 2012 (the “Code”) issued on 2 May 2012.

The Board confirms that for the financial year ended 31 March 2014, the Company has adhered to the principles and guidelines as set out in the Code, where applicable, and has specified and explained the deviation from the Code in this report.

BOARD MATTERS

The Board’s Conduct of its Affairs

Principle 1: Every company should be headed by an effective Board to lead and control the company. The Board is collectively responsible for the long-term success of the company. The Board works with Management to achieve this objective and Management remains accountable to the Board.

Corporate Governance Practices of the Company

The primary role of the Board is to protect and enhance shareholders’ value. Whereas the Board is collectively responsible for the success of the Company, the Board works hand in hand with the Management of the Company (the “Management”) towards achieving this end. The Board reviews Management’s performance and 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 any new member to the Board and key personnel. Matters which required Board’s decision includes interested person transactions, material acquisitions and disposal of assets, corporate and financial restructuring, issuances of shares, dividends and other returns to shareholders. The Board manages the Group in the best interests of shareholders as well as the interest of other stakeholders and pursues the continual enhancement of the long-term shareholder value.

All directors exercise due diligence and independent judgment, and are obliged to act in good faith and consider at all times the interest of the Company.

To assist the Board in the execution of its responsibilities, various Board Committees, namely the Audit Committee (“AC”), Remuneration Committee (“RC”) and Nominating Committee (“NC”) have been constituted with clearly defined terms of reference.

Minutes of the Board Committee meetings are available to all Board members.

All the Board Committees are actively engaged and play an important role in ensuring good corporate governance in the Company and within the Group.

Please refer to Table 1 – Board and Board Committees.

The Board conducts regular scheduled meetings. Additional meetings may be convened as and when circumstance require. The Company’s Articles of Association do provide for meetings to be held via telephone and video conferencing. The Board and Board Committees may also make decisions through circulating resolutions.

Please refer to Table 2 – Attendance at Board and Board Committee Meetings for the financial year ended 31 March 2014 (“FY2014”).

New directors, upon appointment, will be briefed on the business and organisation structure of the Group.



CORPORATE GOVERNANCE REPORT

Directors of the Company will also be updated from time to time of any news or changes to companies and securities legislation, rules and regulations. The Directors also received updates on the business of the Group through regular schedule meetings and ad-hoc Board Meetings.

The Company has on-going budget for all directors to attend appropriate courses, seminars and conferences for them to stay abreast of the relevant business developments.

New directors, upon appointment, will also be briefed on their duties and obligations as directors.

Board Composition and Guidance

Principle 2: There should be a strong and independent element on the Board, which is able to exercise objective judgement on corporate affairs independently, in particular, from Management and 10% shareholders. No individual or small group of individuals should be allowed to dominate the Board's decision making.

Corporate Governance Practices of the Company

Please refer to Table 1 – Board and Board Committee.

The NC reviews the size and composition of the Board and ensures 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 which include two executive directors, one non-executive chairman, two non-executive directors and three 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 the Chairman of the Board is not an independent director, it is recommended by the Code that the independent directors should make up at least half of the Board. The Board is of the opinion that the Company currently has a diversified Board with 8 members from different background (legal, finance and industry experts) and countries (Singapore, China and Australia). Among the 8 members are 3 Independent Directors, hence, independent views are well represented in the Board.

The Company has no independent non-executive director who has served on the Board beyond nine years.

The NC is responsible for examining the size and composition of the Board and Board Committees. Taking into account the nature of the Group's businesses, the Board considers a board size of between 6 to 9 members as appropriate. The Board believes that its current board size and composition effectively serves the Group. It provides sufficient diversity without interfering with efficient decision-making.

The NC is satisfied that the Board has the appropriate mix of expertise and experience, and collectively possesses the necessary core competencies to lead and govern the Group effectively. Each director has been appointed on the strength of his calibre, experience and stature and is expected to bring a valuable range of experience and expertise to contribute to the development of the Group strategy and the performance of its business.

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

Chairman and Chief Executive Officer

Principle 3: There should be a clear division of responsibilities between the leadership of the Board and the executives responsible for managing the company's business. No one individual should represent a considerable concentration of power.

Corporate Governance Practices of the Company

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 ("CEO")). Different individuals assume the Chairman and the Managing Director functions and the posts are, and will remain, separate. Dr Lim Seck Yeow is the Company's 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, Mr Sun Bowen assumes the executive responsibilities of the day-to-day management of the Company. This division of responsibilities has been agreed among the Board members.

The Board had adopted the recommendation of the Code to appoint Mr Ong Tai Tiong Desmond to be the lead independent director as the non-executive Chairman is not an independent director. Mr Ong Tai Tiong Desmond will be available to shareholders where they have concerns for which contact through the normal channels of the Chairman, the Managing Director ("MD") has failed to resolve or is inappropriate.

Board Membership

Principle 4: There should be a formal and transparent process for the appointment and re-appointment of directors to the Board.

Corporate Governance Practices of the Company

Please refer to Table 1 – Board and Board Committee – on the composition of the NC.

The NC will be responsible for (a) the selection and appointment of any new Directors and re-nomination of the 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, 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 principal functions of the NC is to establish a formal and transparent process for:

- (a) The Company is looking into the reviewing of board succession plans for directors, in particular, the Chairman and for the MD.
- (b) reviewing nominations of new Director appointments based on selection criteria such as incumbent's credentials and his/her skills and contributions required by the Company;
- (c) reviewing and recommending to the Board the re-election of Directors in accordance with the Company's Articles of Association;
- (d) determining annually whether a Director is "independent", guided by the independent guidelines contained in the Code;
- (e) deciding whether a Director is able to and has adequately carried out his/her duties as a Director of the Company, in particular whether the Directors concerned have multiple board representations or if they are in conflict with the interest of the Company; and deciding how the Board's performance may be evaluated and propose objective performance criteria.



CORPORATE GOVERNANCE REPORT

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 the Directors to retire and subject themselves to re-election by shareholders at every Annual General Meeting ("AGM"). In other words, no Director stays in office for more than three years without being re-elected by shareholders. Directors of or over 70 years of age required to be re-elected every year at the AGM under Section 153(6) of the Companies Act, Cap. 50 before they can continue to act as Director.

At the forthcoming AGM, Mr Wee Phui Gam and Mr Sun Bowen will be retiring by rotation pursuant to Article 107 of the Company's Articles of Association. Both of them, being eligible for re-election, have offered themselves for re-election.

Mr Simon Hunter Atkinson, who was appointed Director of the Company on 1 October 2013, will be retiring pursuant to Article 117 of the Company's Articles of Association and he being eligible for re-election, has offered himself for re-election.

Dr Lim Seck Yeow, who is over 70 years of age, will be retiring pursuant to Article 153 of the Company's Articles of Association and he being eligible for re-election, has offered himself for re-election.

New directors are appointed by way of a Board Resolution, after the NC has approved their nomination. In its search and selection process for new directors, other than through formal search, the NC taps on the resources of directors' personal contacts and recommendations of potential candidates and appraises the nominees to ensure that the candidates possess relevant experience and have the calibre to contribute to the Group and its businesses, having regard to the attributes of the existing Board and the requirements of the Group.

Notwithstanding that some of the directors have multiple board representations, the NC is satisfied that sufficient time and attention are being given by the directors to the affairs of the Company and each director is able to and has been adequately carrying out his duties as a director of the Company.

No alternate director has been appointed to the Board.

When an existing director chooses to retire or the need for a new director arises, either to replace a retiring director or to enhance the Board's strength, the NC, in consultation with the Board, determines the selection criteria and identifies candidates with the appropriate expertise and experience for the appointment as new director. The NC then meets with the shortlisted potential candidates with the appropriate profile before nominating the most suitable candidate to the Board for appointment as director.

The profile and other principal commitments of all Board members are set out in the section entitled 'Board of Directors'.

Please refer to Table 3 – Date of Directors' initial appointment and last re-election and their directorships.

Except as disclosed in Table 3, there were no other directorships or chairmanships held by the directors over the preceding three years in other listed companies.

Board Performance

Principle 5: There should be a formal annual assessment of the effectiveness of the Board as a whole and its board committees and the contribution by each director to the effectiveness of the Board.

Corporate Governance Practices of the Company

The NC has adopted a formal process to assess the effectiveness of the Board as a whole and contribution by each individual director to the effectiveness of the Board on an annual basis.

The performance criteria for the Board evaluation are based on financial and non-financial indicators such as an evaluation of the size and composition of the Board, the Board's access to information, Board's processes, strategy and planning, risk management, accountability, Board's 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.



CORPORATE GOVERNANCE REPORT

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 Board Committees meetings, and any other duties).

The Chairman acts on the results of the performance evaluation, and where appropriate, proposes new members to 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 resolution and making any recommendation and/or participating in any deliberation of the NC in respect of an assessment of his performance or re-nomination as director.

Access to Information

Principle 6: In order to fulfill their responsibilities, directors should be provided with complete, adequate and timely information prior to board meetings and on an on-going basis so as to enable them to make informed decisions to discharge their duties and responsibilities.

Corporate Governance practices of the Group

All directors have unrestricted access to the Company's records and information. From time to time, they are furnished with accurate and detailed information in a timely manner concerning the Group to enable them to be fully cognisant of the decisions and actions of the Group's executive management.

As a general rule, detailed Board papers prepared for each meeting are normally circulated in advance of each meeting. This is to give directors sufficient time to review and consider the matters to be discussed so that discussion can be more meaningful and productive. However, sensitive matters may be tabled at the meeting itself or discussed without papers being distributed. The Board papers include sufficient background explanatory information from the Management on financial, business and corporate issues to enable the directors to be properly briefed on issues to be considered at Board and Board Committees meetings. Such explanatory information may also be in the form of briefings to provide additional insights to the directors or formal presentations made by senior management staff in attendance at the meetings, or by external consultants engaged on specific projects.

The Board has separate and independent access to the Company Secretary and to other senior management executives of the Group at all times in carrying out their duties.

The Management provided to the Board members with the management accounts on a quarterly basis, as well as adequate information prior to Board meetings and updates on initiatives and developments of the Group's business whenever possible, on an on-going basis.

The Board members have separate and independent access to the Company's senior management. The Board members (whether individually or as a group) have, in the furtherance of their duties, access to independent professional advice, if necessary, at the Company's expense.

The Company Secretary or her nominee administers and attends all Board and Board Committees meetings of the Company and prepares minutes of meetings. She is responsible for, among other things, ensuring that Board procedures are observed and that applicable rules and regulations are complied with. The Company Secretary also assists the Chairman and the Board in implementing and strengthening corporate governance practices and processes.

The appointment and the removal of the Company Secretary are subject to the Board's approval.

The directors, in furtherance of their duties, are entitled to take independent professional advice at the expense of the Company when necessary.

CORPORATE GOVERNANCE REPORT

REMUNERATION MATTERS

Procedures for Developing Remuneration Policies

Principle 7: There should be a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual directors. No director should be involved in deciding his own remuneration.

Corporate Governance Practices of the Company

Please refer to Table 1 – Board and Board Committee – on the composition of the RC.

The RC is responsible for recommending to the 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 the RC.

The RC meets at least once in every financial year. Each member of the RC shall abstain from voting on any resolution and making any recommendation and/or participating in any deliberation of the RC in respect of his remuneration package.

The RC has access to appropriate expert advice in the field of executive compensation outside the company where required.

The Company has no termination benefits.

Level and Mix of Remuneration

Principle 8: The level and structure of remuneration should be aligned with the long-term interest and risk policies of the company, and should be appropriate to attract, retain and motivate (a) the directors to provide good stewardship of the company, and (b) key management personnel to successfully manage the company. However, companies should avoid paying more than is necessary for this purpose.

ANNUAL REMUNERATION REPORT

REMUNERATION POLICY IN RESPECT OF EXECUTIVE DIRECTORS AND OTHER KEY MANAGEMENT PERSONNEL

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 consideration is given to 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 are consistent with market practices including medical benefits, car allowance, club benefits and housing subsidy. In setting the remuneration packages, the RC takes into consideration the pay and employment conditions within the industry and in comparable companies.

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

LONG-TERM INCENTIVE PLANS

The Company does not have long-term incentive scheme.

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.

In setting remuneration packages, the Company takes into consideration the remuneration and employment conditions within the same industry and in comparable companies, as well as the Group's relative performance and the performance of the individuals.

Disclosure on Remuneration

Principle 9: Every company should provide clear disclosure of its remuneration policies, level and mix of remuneration, and the procedure for setting remuneration, in the company's Annual Report. It should provide disclosure in relation to its remuneration policies to enable investors to understand the link between remuneration paid to directors and key management personnel, and performance.

LEVEL AND MIX OF REMUNERATION OF DIRECTORS AND KEY MANAGEMENT PERSONNEL (WHO ARE NOT ALSO DIRECTORS OR THE CEO) FOR THE YEAR ENDED 31 MARCH 2014.

Please refer to Table 4 – Remuneration Table

The Executive Directors' remuneration comprise mainly 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.

The Independent 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 the Directors are subject to the approval of shareholders at the forthcoming AGM.

Except as disclosed in Table 4 of this report, no Director has received or become entitled to receive a benefit 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.

ACCOUNTABILITY AND AUDIT

Accountability

Principle 10: The Board should present a balanced and understandable assessment of the company's performance, position and prospects.

Corporate Governance Practices of the Company

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.

In line with the SGX Listing Rules, the Board provides a negative assurance statement to the shareholders in respect of the interim financial statements. For the financial year under review, the MD and the Finance Manager ("FM") have provided assurance to the Board on the integrity of the Group's financial statements.

The Board and the Board committees are furnished with management reports containing complete, adequate and timely information, and papers containing relevant background or explanatory information required to support the decision-making process. Management team and the Company's auditors would also provide additional information on the matters for discussion.



CORPORATE GOVERNANCE REPORT

RISK MANAGEMENT AND INTERNAL CONTROLS

Principle 11: The Board is responsible for the governance of risk. The Board should ensure that Management maintains a sound system of risk management and internal controls to safeguard shareholders' interests and the company's assets, and should determine the nature and extent of the significant risks which the Board is willing to take in achieving its strategic objectives.

Corporate Governance Practices of the Company

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 and confirmed the adequacy of the Company's internal controls. Based on the internal controls established and maintained by the Group, work performed by the internal and external auditors, and reviews performed by management, various Board Committees and the Board, the Audit Committee and the Board are of the opinion that the Group's internal controls, addressing financial, operational and compliance risks, were adequate as at 31 March 2014.

The Board is satisfied that the system of internal procedures, controls and reviews that the Group has in place provides reasonable assurance against material financial misstatements or loss, safeguarding of assets, the maintenance of proper accounting records, reliability of financial information, compliance with legislation, regulations and best practices and the identification and management of business risks. The Board, with the concurrence of the Audit Committee, is therefore of the opinion that the Group's system of internal controls is adequate to address financial, operational and compliance risks of the Group in its current business environment.

The AC and the Board has received assurance from the MD and the FM that the financial records of the Company have been properly maintained and the financial statements give a true and fair view of the Company's operations and finances; and regarding the effectiveness of the Company's risk management and internal control systems.

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 in order to identify areas of significant business risks as well as appropriate measures to control and mitigate these risks. The Management reviews all significant control policies and procedures and highlights all significant matters to the Board and the AC.

AUDIT COMMITTEE

Principle 12: The Board should establish an Audit Committee ("AC") with written terms of reference which clearly set out its authority and duties.

Please refer to Table 1 – Board and Board Committee – on the composition of the AC.

The Board is of the view that the members of the AC, individually or collectively, have expertise and experience in financial management and regulatory requirement are qualified to discharge the AC's responsibilities.

The AC has explicit authority to investigate any matter within its terms of reference. It has full access to, and the co-operation of the Management and full discretion to invite any executive director or executive officer to attend its meetings. The AC has adequate resources, including access to external consultants and auditors, to enable it to discharge its responsibilities properly.



CORPORATE GOVERNANCE REPORT

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

- (a) review with the external auditors and where applicable, the internal auditors, their audit plans, their evaluation of the system of internal accounting controls, their letter to management and the management's response;
- (b) review the quarterly and annual financial statements and balance sheet and profit and loss accounts before submission to the Board for approval, focusing in particular on changes in accounting policies and practices, major risk areas, significant adjustments resulting from the audit compliance with accounting standards and compliance with the Listing Manual and any other relevant statutory or regulatory requirements;
- (c) ensure co-ordination between the external auditors and the management, and review the assistance given by the 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 the 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 the Group's operating results or financial position, and the management's response;
- (e) review the 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 the Company's annual report every year;
- (f) make recommendations to the Board on the appointment, re-appointment and removal of the external auditors and approving the remuneration and terms of engagement of the external auditors;
- (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 the Board, and will report to the Board its findings from time to time on matters arising and requiring the attention of the 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 the 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 the financial performance;
- (m) review the effectiveness of the internal audit function;
- (n) review arrangements by which the staff may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters; and
- (o) review the adequacy of the internal financial controls, operational and compliance controls, and risk management policies and systems established by the management.

The AC also meet up with the internal and external auditors without any executive of the Company being present at least once on an annual basis and as and when necessary during the year.



CORPORATE GOVERNANCE REPORT

The Audit Committee has reviewed the independence of the Company's external auditors and is satisfied with the independence and objectivity of the external auditors. The aggregate amount of fees paid to the external auditors of the Company and subsidiaries for audit services was S\$79,000. The non-audit services provided by the external auditors for the financial year ended 31 March 2014 was S2,000. 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. The AC has also recommended the re-appointment of the auditors to the Board.

The Company has in place whistle-blowing policies and arrangements by which the 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 Internal Auditor and the Chairman of the AC will be informed immediately of all whistle-blowing reports received.

There were no reported incidents pertaining to whistle-blowing for FY2014.

As at the date of this Annual Report, the AC has met with the external auditors separately without the presence of Management to review any area of audit concern.

The Group has appointed different auditors for its overseas subsidiaries. The Board and Audit Committee have reviewed that the appointment of different auditors for its overseas subsidiaries and were satisfied that the appointment of different auditors would not compromise the standard and effectiveness of the audit of the Group. The Company is in compliance with Rules 712, 715 and 716 of the Listing Rules in relation to its independent auditors.

Internal Audit

Principle 13: The company should establish an effective internal audit function that is adequately resourced and independent of the activities it audit.

Corporate Governance Practices of the Company

The Company has set up an Internal Audit ("IA") function to provide internal audit services to the 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 MD. The IA will also conduct checks on whether the 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.

SHAREHOLDER RIGHTS AND RESPONSIBILITIES

Shareholder Rights

Principle 14: Companies should treat all shareholders fairly and equitably, and should recognize, protect and facilitate the exercise of shareholders' rights, and continually review and update such governance arrangements.

Corporate Governance Practices of the Company

The Company is committed to engage in regular and timely communication with shareholders as part of the organisation's development to build systems and procedures that will enable the Group to compete internationally. The Company places great emphasis on investor relations and strives to maintain a high standard of transparency and to promote better investor communications. It aims to provide investors with clear, balanced and useful information, on a timely basis, about the Group's performance, financial position and prospects.

CORPORATE GOVERNANCE REPORT

Management supported the Code's principle to encourage shareholder participation. Shareholders are encouraged to attend the AGM to ensure a high level of accountability and to stay informed of the Company's strategy and goals. Notice of the AGM is despatched to shareholders, together with explanatory notes or a circular on items of special business (if necessary), at least 14 days or 21 days, as the case may be, before the meeting. The Board welcomes questions from shareholders who have an opportunity to raise issues either informally or formally before or at the AGM.

Whilst there is no limit imposed on the number of proxy votes for nominee companies, the Articles of Association of the Company allow each shareholder to appoint up to two proxies to attend AGMs.

COMMUNICATION WITH SHAREHOLDERS

Principle 15: Companies should actively engage their shareholders and put in place an investor relations policy to promote regular, effective and fair communication with shareholders.

The Company believes in engaging a regular, effective and fair communication with its shareholders and is committed to convey pertinent information to its 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 released to the SGX-ST, the Company's annual reports, circulars, press releases, as well as on the corporate website (www.fabchemchina.com) which has a dedicated investor relations section.

The Company does not practice selective disclosure. In line with continuous obligations of the Company pursuant to the SGX-ST Listing Manual and the Companies Act (Cap 50) of Singapore, the Board's policy is that all shareholders should be equally and timely informed of all major developments that will impact the Company or the Group. Information is communicated to shareholders on a timely basis through the Singapore Exchange Network (the "SGXNET") and the press.

CONDUCT OF SHAREHOLDER MEETINGS

Principle 16: Companies should encourage greater shareholder participation at general meetings of shareholders, and allow shareholders the opportunity to communicate their views on various matters affecting the company.

Corporate Governance Practices of the Company

Shareholders are informed of shareholders' meetings through notices contained in annual reports or circulars sent to all shareholders. These notices are also published in the Business Times and posted onto the SGXNET.

If shareholders are unable to attend the meetings, the Articles of Association allow a shareholder of the Company to appoint up to two proxies to attend and vote in place of the shareholder.

Resolutions at general meetings are on each substantially separate issue. All the resolutions at the general meetings are single item resolutions.

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

The Board views the AGM as the principal forum for dialogue with shareholders, being an opportunity for shareholders to raise issues pertaining to the proposed resolutions and/or ask the directors or the Management questions regarding the Company and its operations.

The Company has yet to conduct the voting of all its resolutions by poll at all its AGM and Extraordinary General Meeting. The Company will consider polling in future.

The Group has a dividend policy of distributing at least 10% of profit attributable to shareholders every financial year.



CORPORATE GOVERNANCE REPORT

DEALING IN SECURITIES

The Group has adopted an internal code in relation to dealings in the Company's securities pursuant to rule 1207(19) 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. The Company has in place a policy prohibiting share dealings by Directors and employees of the Company for the period of two weeks before the announcement of the Company's financial results for the first three quarters of its financial year, or one month prior to the announcement of the Company's full year results; and ending on the date of the announcement of the relevant 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.

MATERIAL CONTRACTS

Save as disclosed in the Interested Person Transactions section, there are no material contracts entered into by the Company or its subsidiaries involving the interest, direct or deemed, of the Managing Director or any Director or controlling shareholders (as defined in the SGX-ST Listing Manual), during the financial year ended 31 March 2014.

INTERESTED PERSON 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 subsidiaries and its minority shareholders. The AC will review and approve all interested person transactions as defined by the SGX-ST Listing Manual.

During the financial year ended 31 March 2014, 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) | |
|--|--------------------------------|---|-------------------|---|-------------------|
| | | FY2014 RMB'000 | FY2013 RMB'000 | FY2014 RMB'000 | FY2013 RMB'000 |
| Shandong Yinguang Minbao Qicai Co., Ltd ⁽¹⁾ | Sales of ammonium nitrate | 13,643 | 539 | – | 600 |
| Dyno Nobel ⁽²⁾ | Sales of commercial explosives | – | – | 19,710 | 29,420 |

Footnotes:

- (1) The relevant general mandate was updated and approved at the Annual General Meeting ("AGM") held on 28 July 2011. However, it was not updated during the AGM held on 27 July 2012 after considering the immateriality of the amount transacted. As such, transactions after 27 July 2012 will not be considered as conducted under shareholders mandate pursuant to Rule 920. Shandong Yinguang Chemical Group Co., Ltd transferred the business to Shandong Yinguang Minbao Qicai Co., Ltd.
- (2) The relevant general mandate was approved at the Extraordinary General Meeting held on 10 November 2011 and was updated and approved at the AGM held on 27 July 2012.

CORPORATE GOVERNANCE REPORT

USE OF PROCEEDS

For the financial year ended 31 March 2014, the Group has a total of unutilised IPO proceeds of approximately RMB2.0 million.

The Board will continue to make periodic announcements on the utilisation of the balance of the IPO proceeds until the whole of the IPO proceeds has been fully disbursed.

TABLE 1 – BOARD AND BOARD COMMITTEES

| Name of Director | Board Membership | Audit Committee | Nominating Committee | Remuneration Committee |
|-------------------------|--|-----------------|----------------------|------------------------|
| Dr Lim Seck Yeow | Non-Executive Chairman/Non-Independent | Member | Member | Member |
| Sun Bowen | Executive/Non-Independent | – | – | – |
| Bao Hongwei | Executive/Non-Independent | – | – | – |
| Ong Tai Tiong Desmond | Non-Executive/Independent | Member | Chairman | Chairman |
| Wee Phui Gam | Non-Executive/Independent | Chairman | Member | Member |
| Prof. Jiang Rongguang | Non-Executive/Independent | – | – | – |
| Frankie Manuel Micallef | Non-Executive/Non-Independent | – | – | – |
| Simon Hunter Atkinson | Non-Executive/Non-Independent | – | – | – |

TABLE 2 – ATTENDANCE AT BOARD AND BOARD COMMITTEE MEETINGS

| | BOARD | | AUDIT | | REMUNERATION | | NOMINATING | |
|-------------------------|-------------------|-------------------------|-------------------|-------------------------|-------------------|-------------------------|-------------------|-------------------------|
| | # No. of Meetings | No of Meetings Attended | # No. of Meetings | No of Meetings Attended | # No. of Meetings | No of Meetings Attended | # No. of Meetings | No of Meetings Attended |
| Dr Lim Seck Yeow | 4 | 4 | 4 | 4 | 1 | 1 | 1 | 1 |
| Sun Bowen | 4 | 2 | – | – | – | – | – | – |
| Bao Hongwei | 4 | 4 | – | – | – | – | – | – |
| Ong Tai Tiong Desmond | 4 | 2 | 4 | 2 | 1 | 1 | 1 | 1 |
| Wee Phui Gam | 4 | 4 | 4 | 4 | 1 | 1 | 1 | 1 |
| Prof. Jiang Rongguang | 4 | 1 | – | – | – | – | – | – |
| Frankie Manuel Micallef | 4 | 4 | – | – | – | – | – | – |
| Simon Hunter Atkinson | 2 | 2 | – | – | – | – | – | – |

No. of meetings held whilst a member



CORPORATE GOVERNANCE REPORT

TABLE 3 – DATE OF DIRECTOR'S INITIAL APPOINTMENT & LAST RE-ELECTION & THEIR DIRECTORSHIPS

| Name of Director | Age | Appointment | Date of initial appointment | Date of last re-election | Present directorships in listed companies | Past (preceding 3 years) directorships in listed companies |
|-------------------------|-----|---|-----------------------------|--------------------------|---|--|
| Dr Lim Seck Yeow | 76 | Non-Independent Director and Non-Executive Chairman | 12 October 2004 | 25 July 2013 | Nil | Nil |
| Sun Bowen | 63 | Managing Director | 16 June 2005 | 28 July 2011 | Nil | Nil |
| Bao Hongwei | 44 | Executive Director & General Manager | 16 June 2005 | 27 July 2012 | Nil | Nil |
| Ong Tai Tiong Desmond | 45 | Independent Director | 17 February 2006 | 25 July 2013 | Ecowise Holdings Limited | China Powerplus Limited |
| Wee Phui Gam | 60 | Independent Director | 15 October 2009 | 27 July 2012 | Nil | Nil |
| Prof. Jiang Rongguang | 63 | Independent Director | 11 October 2010 | 25 July 2013 | Nil | Nil |
| Frankie Manuel Micallef | 51 | Non-Executive Director | 1 April 2012 | 27 July 2012 | Nil | Nil |
| Simon Hunter Atkinson | 46 | Non-Executive Director | 1 October 2013 | N.A. | Nil | Nil |

TABLE 4 – REMUNERATION TABLE

a) **Directors' remuneration**

For competitive reasons, the Company is not disclosing the annual remuneration of each individual Director for the financial year ended 31 March 2014. Instead, we are disclosing the bands of remuneration as follows:

| Name of Director | S\$0 to S\$250,000 | Directors' Fees* (%) | Fixed Salary (%) | Profit sharing (%) |
|--------------------------------|--------------------|----------------------|------------------|--------------------|
| Executive Directors | | | | |
| Sun Bowen | ✓ | – | 100.0 | – |
| Bao Hongwei | ✓ | – | 100.0 | – |
| Non-executive Directors | | | | |
| Dr Lim Seck Yeow | ✓ | 100.0 | – | – |
| Frankie Manuel Micallef | ✓ | 100.0 | – | – |
| Simon Hunter Atkinson | ✓ | 100.0 | – | – |
| Independent Directors | | | | |
| Ong Tai Tiong Desmond | ✓ | 100.0 | – | – |
| Wee Phui Gam | ✓ | 100.0 | – | – |
| Jiang Rongguang | ✓ | 100.0 | – | – |

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

CORPORATE GOVERNANCE REPORT

b) Top Five Key Executives' Remuneration

Details of remuneration paid to the key executives (who are not Directors of the Company) of the Group for the financial year ended 31 March 2014 are set out below. For competitive reasons, the Company is only disclosing the band of remuneration for each key executive for the financial year ended 31 March 2014 under review as follows:

| Name of Key Executive | Below S\$250,000 | Percentage of Variable Remuneration (%) | Percentage of Fixed Remuneration (%) |
|-----------------------|------------------|---|--------------------------------------|
| Chen Rui | ✓ | – | 100 |
| Sun Qiang | ✓ | – | 100 |
| Yang Xingdong | ✓ | – | 100 |
| Kwek Wei Lee | ✓ | 13.9 | 86.1 |
| Chen Hongyu | ✓ | – | 100 |

The annual aggregate remuneration paid to the top five key management personnel is approximately S\$415,000.

c) Immediate families of Directors

Sun Qiang is the son of the Managing Director whose remuneration did not exceed S\$50,000 during the financial year ended 31 March 2014. Apart from him, no employee of the company and its subsidiary is an immediate family member of a director and whose remuneration exceeded S\$50,000 during the financial year ended 31 March 2014.



DIRECTORS' REPORT

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 reporting year ended 31 March 2014.

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
Frankie Manuel Micallef
Simon Hunter Atkinson
Ong Tai Tiong Desmond
Wee Phui Gam
Jiang Rongguang

2. Arrangements to Enable Directors to Acquire Benefits by Means of the Acquisition of Shares and Debentures

Neither at the end of the reporting year nor at any time during the reporting 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 reporting 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, Chapter 50 (the "Act") except as follows:

| Name of directors and company in which interests are held | Direct Interest | |
|---|------------------------------------|------------------------------|
| | At beginning of the reporting year | At end of the reporting year |
| The Company | Number of shares of no par value | |
| Bao Hongwei | 4,788,000 | 4,788,000 |
| | Deemed Interest | |
| The Company | Number of shares of no par value | |
| Dr Lim Seck Yeow | 18,334,000 | 18,334,000 |
| Sun Bowen | 75,700,000 | 75,700,000 |
| Bao Hongwei | 8,604,000 | 8,604,000 |

The directors' interests as at 21 April 2014 were the same as those at the end of the reporting year.

By virtue of section 7 of the Act, Mr Sun Bowen with the above deemed interests is also deemed to have an interest in all the related corporations of the company.



DIRECTORS' REPORT

4. Contractual Benefits of Directors

Since the beginning of the reporting 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 Act 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 under related party transactions) with corporations in which certain directors have an interest.

5. Share Options

During the reporting year, no option to take up unissued shares of the company or any corporation in the group was granted and, 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.

At the end of the reporting year, there were no unissued shares under option.

6. Audit Committee

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

| | |
|-----------------------|--|
| Wee Phui Gam | (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 other functions, it performed the following:

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

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

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

7. Independent Auditors

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

8. Directors' Opinion on the Adequacy of Internal Controls

Based on the internal controls established and maintained by the company, work performed by the internal and external auditors, and reviews performed by management, other committees of the board and the board, the audit committee and the board are of the opinion that company's internal controls, addressing financial, operational and compliance risks, are adequate as at the end of the reporting year 31 March 2014.

9. 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 30 May 2014, 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

6 June 2014



STATEMENT BY DIRECTORS

In the opinion of the directors,

- (a) the accompanying consolidated statement of profit or loss and other comprehensive income, statements of financial position, statements of changes in equity, consolidated statement of cash flows, and notes thereto 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 2014 and of the results and cash flows of the group and changes in equity of the company and of the group for the reporting year then ended; and
- (b) 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 approved and authorised these financial statements for issue.

On Behalf of The Directors

Sun Bowen
Director

Bao Hongwei
Director

6 June 2014



INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF FABCHEM CHINA LIMITED (REGISTRATION NO:200413128G)

Report on the Financial Statements

We have audited the accompanying financial statements of Fabchem China Limited (the "company") and its subsidiaries (the "group"), which comprise the consolidated statement of financial position of the group and the statement of financial position of the company as at 31 March 2014, and the consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows of the group, and statement of changes in equity of the company for the reporting year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Singapore Companies Act, Chapter 50 (the "Act") and Singapore Financial Reporting Standards, and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair statement of profit or loss and other comprehensive income and statement of financial position and to maintain accountability of assets.

Auditors' 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 whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, 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, the consolidated financial statements of the group and the statement of financial position and statement of changes in equity 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 2014 and the results, changes in equity and cash flows of the group and the changes in equity of the company for the reporting year ended on that date.

Report on Other Legal and Regulatory Requirements

In our opinion, 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 LLP
Public Accountants and
Chartered Accountants
Singapore

6 June 2014

Partner-in-charge of audit: Goh Swee Hong
Effective from year ended 31 March 2010

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

YEAR ENDED 31 MARCH 2014

| | Notes | Group | |
|---|-------|-----------------|-----------------|
| | | 2014 RMB'000 | 2013 RMB'000 |
| Revenue | 5 | 392,990 | 489,081 |
| Cost of Sales | | (298,484) | (355,627) |
| Gross Profit | | 94,506 | 133,454 |
| <u>Other Items of Income</u> | | | |
| Interest Income | 6 | 665 | 884 |
| Other Credits | 7 | 2,279 | 2,211 |
| <u>Other Items of Expense</u> | | | |
| Distribution Costs | | (28,824) | (30,192) |
| Administrative Expenses | | (41,203) | (43,677) |
| Finance Costs | 6 | (6,905) | (3,073) |
| Other Charges | 7 | (62,916) | (3,455) |
| (Loss)/Profit Before Tax From Continuing Operations | | (42,398) | 56,152 |
| Income Tax Expense | 9 | (15,145) | (24,644) |
| (Loss)/Profit from Continuing Operations, Net of Tax | | (57,543) | 31,508 |
| <u>Other Comprehensive Income:</u> | | | |
| Items that may be reclassified to profit or loss: | | | |
| Exchange Differences on Translating Financial Statements of Company | | (1,162) | 306 |
| Total Comprehensive (Loss)/Income | | (58,705) | 31,814 |
| | | RMB | RMB |
| (Loss)/Earnings Per Share | | Cents | Cents |
| - Basic | 10 | (24.59) | 13.46 |
| - Diluted | 10 | (24.59) | 13.46 |

The accompanying notes form an integral part of these financial statements



STATEMENTS OF FINANCIAL POSITION

AS AT 31 MARCH 2014

| | Notes | Group | | Company | |
|--------------------------------------|-------|-----------------|-----------------|-----------------|-----------------|
| | | 2014 RMB'000 | 2013 RMB'000 | 2014 RMB'000 | 2013 RMB'000 |
| ASSETS | | | | | |
| Non-Current Assets | | | | | |
| Property, Plant and Equipment | 13 | 243,687 | 284,615 | 232 | 191 |
| Intangible Assets | 14 | 3,953 | 4,815 | - | - |
| Other Assets, Non-Current | 15 | 90,977 | 92,635 | - | - |
| Investment in Subsidiaries | 16 | - | - | 110,386 | 114,022 |
| Deferred Tax Assets | 9 | 3,183 | 4,428 | - | - |
| Total Non-Current Assets | | 341,800 | 386,493 | 110,618 | 114,213 |
| Current Assets | | | | | |
| Inventories | 17 | 63,874 | 63,080 | - | - |
| Trade and Other Receivables, Current | 18 | 90,006 | 116,243 | 16,167 | 36,428 |
| Other Assets, Current | 15 | 7,724 | 15,080 | 142 | 66 |
| Cash and Cash Equivalents | 19 | 99,473 | 120,011 | 600 | 487 |
| Total Current Assets | | 261,077 | 314,414 | 16,909 | 36,981 |
| Total Assets | | 602,877 | 700,907 | 127,527 | 151,194 |
| EQUITY AND LIABILITIES | | | | | |
| Equity | | | | | |
| Share Capital | 20 | 116,849 | 116,849 | 116,849 | 116,849 |
| Retained Earnings | | 194,706 | 263,139 | 9,720 | 27,299 |
| Other Reserves | 21 | 82,211 | 80,401 | (2,527) | 2,271 |
| Total Equity | | 393,766 | 460,389 | 124,042 | 146,419 |
| Non-Current Liabilities | | | | | |
| Deferred Tax Liabilities | 9 | 3,781 | 5,144 | - | - |
| Total Non-Current Liabilities | | 3,781 | 5,144 | - | - |
| Current Liabilities | | | | | |
| Income Tax Payable | | 689 | 3,316 | - | - |
| Trade and Other Payables, Current | 23 | 108,798 | 133,821 | 3,485 | 4,768 |
| Other Financial Liabilities, Current | 22 | 90,172 | 96,288 | - | 7 |
| Other Liabilities, Current | 24 | 5,671 | 1,949 | - | - |
| Total Current Liabilities | | 205,330 | 235,374 | 3,485 | 4,775 |
| Total Liabilities | | 209,111 | 240,518 | 3,485 | 4,775 |
| Total Equity and Liabilities | | 602,877 | 700,907 | 127,527 | 151,194 |

The accompanying notes form an integral part of these financial statements

STATEMENTS OF CHANGES IN EQUITY

YEAR ENDED 31 MARCH 2014

| Group: | Total Equity | Share Capital | Retained Earnings | Capital Reserve | Statutory Reserve | Foreign Exchange Translation Reserve |
|---|----------------|----------------|-------------------|-----------------|-------------------|--------------------------------------|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Current Year: | | | | | | |
| Opening Balance at 1 April 2013 | 460,389 | 116,849 | 263,139 | 44,000 | 35,009 | 1,392 |
| Movements in Equity: | | | | | | |
| Dividends Paid (Note 11) | (7,918) | – | (7,918) | – | – | – |
| Total Comprehensive Loss for the Year | (58,705) | – | (57,543) | – | – | (1,162) |
| Appropriation for the Year (Note 21) | – | – | (2,972) | – | 2,972 | – |
| Closing Balance at 31 March 2014 | 393,766 | 116,849 | 194,706 | 44,000 | 37,981 | 230 |
| Previous Year: | | | | | | |
| Opening Balance at 1 April 2012 | 440,406 | 116,849 | 279,925 | – | 42,546 | 1,086 |
| Movements in Equity: | | | | | | |
| Capitalisation of Subsidiary's Retained Earnings and Statutory Reserve as Share Capital of Subsidiary (Note 21) | – | – | (31,000) | 44,000 | (13,000) | – |
| Dividends Paid (Note 11) | (11,831) | – | (11,831) | – | – | – |
| Total Comprehensive Income for the Year | 31,814 | – | 31,508 | – | – | 306 |
| Appropriation for the Year (Note 21) | – | – | (5,463) | – | 5,463 | – |
| Closing Balance at 31 March 2013 | 460,389 | 116,849 | 263,139 | 44,000 | 35,009 | 1,392 |

| Company: | Total Equity | Share Capital | Retained Earnings | Foreign Exchange Translation Reserve |
|---|----------------|----------------|-------------------|--------------------------------------|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Current Year: | | | | |
| Opening Balance at 1 April 2013 | 146,419 | 116,849 | 27,299 | 2,271 |
| Movements in Equity: | | | | |
| Dividends Paid (Note 11) | (7,918) | – | (7,918) | – |
| Total Comprehensive Loss for the Year | (14,459) | – | (9,661) | (4,798) |
| Closing Balance at 31 March 2014 | 124,042 | 116,849 | 9,720 | (2,527) |
| Previous Year: | | | | |
| Opening Balance at 1 April 2012 | 149,725 | 116,849 | 31,635 | 1,241 |
| Movements in Equity: | | | | |
| Dividends Paid (Note 11) | (11,831) | – | (11,831) | – |
| Total Comprehensive Income for the Year | 8,525 | – | 7,495 | 1,030 |
| Closing Balance at 31 March 2013 | 146,419 | 116,849 | 27,299 | 2,271 |

The accompanying notes form an integral part of these financial statements



CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED 31 MARCH 2014

| | 2014 | 2013 |
|--|-----------|-----------|
| | RMB'000 | RMB'000 |
| Cash Flows From Operating Activities | | |
| (Loss)/Profit Before Tax | (42,398) | 56,152 |
| Allowance for Impairment on Trade and Other Receivables – Loss | 1,370 | 1,031 |
| Allowance for Impairment on Trade and Other Receivables – Reversal | (171) | (24) |
| Allowance for Impairment on Inventories – Loss | 328 | 208 |
| Amortisation of Other Intangible Assets and Land Use Rights | 3,664 | 3,515 |
| Bad Debts Written-off | 5 | 8 |
| Depreciation of Property, Plant and Equipment | 20,561 | 20,160 |
| Impairment of Property, Plant and Equipment | 60,000 | – |
| Loss/(Gain) on Disposal of Plant and Equipment | 1,213 | (71) |
| Gain on Disposal of Land Use Rights | – | (128) |
| Property, plant and equipment written-off | – | 1,087 |
| Provision for safety expenses | 4,437 | 6,287 |
| Write-back of Creditors | (1,255) | – |
| Net Effect of Exchange Rate Changes in Translation of Financial Statements of Parent | (1,156) | 304 |
| Interest Expense | 6,905 | 3,073 |
| Interest Income | (665) | (884) |
| Operating Cash Flows before Changes in Working Capital | 52,838 | 90,718 |
| Inventories | (1,122) | (884) |
| Trade and Other Receivables | 23,715 | 11,841 |
| Other Assets | 7,356 | 28,885 |
| Trade and Other Payables | (26,205) | 31,709 |
| Other Liabilities | 3,722 | (710) |
| Net Cash Flows from Operations Before Tax | 60,304 | 161,559 |
| Income Taxes Paid | (16,572) | (24,250) |
| Net Cash Flows From Operating Activities | 43,732 | 137,309 |
| Cash Flows From Investing Activities | | |
| Proceeds from Disposal of Plant and Equipment | 698 | 941 |
| Purchase of Property, Plant and Equipment (Note 23) | (43,550) | (112,986) |
| Purchase of Land Use Rights (Note 23) | (1,144) | (46,983) |
| Interest Received | 665 | 884 |
| Net Cash Flows Used in Investing Activities | (43,331) | (158,144) |
| Cash Flows From Financing Activities | | |
| Dividends Paid | (7,918) | (11,831) |
| Proceeds from Bank Borrowings | 126,000 | 98,000 |
| Repayment of Borrowings | (132,109) | (45,306) |
| Repayment of Lease Liabilities | (7) | (87) |
| Interest Paid | (6,905) | (3,073) |
| Net Cash Flows (Used in) / From Financing Activities | (20,939) | 37,703 |
| Net (Decrease) / Increase in Cash and Cash Equivalents | (20,538) | 16,868 |
| Cash and Cash Equivalents, Statement of Cash Flows, Beginning Balance | 120,011 | 103,143 |
| Cash and Cash Equivalents, Statement of Cash Flows, Ending Balance (Note 19) | 99,473 | 120,011 |

The accompanying notes form an integral part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS

31 MARCH 2014

1. General

The company is incorporated in Singapore with limited liability. The financial statements are presented in Chinese Renminbi (“RMB”) and they cover the company (referred to as “parent”) and its subsidiaries.

The board of directors approved and authorised these financial statements for issue on the date of the statement by directors.

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

The principal activities of the subsidiaries are described in Note 16 below.

The registered office is: 80 Robinson Road #02-00, Singapore 068898. The company is situated in Singapore.

2. Summary of Significant Accounting Policies

Accounting Convention

The financial statements have been prepared in accordance with the Singapore Financial Reporting Standards (“FRS”) and the related Interpretations to FRS (“INT FRS”) as issued by the Singapore Accounting Standards Council and the Companies Act, Chapter 50. The financial statements are prepared on a going concern basis under the historical cost convention except where an FRS requires an alternative treatment (such as fair values) as disclosed where appropriate in these financial statements. The accounting policies in FRSs need not be applied when the effect of applying them is immaterial. The disclosures required by FRSs need not be made if the information is immaterial. Other comprehensive income comprises items of income and expense (including reclassification adjustments) that are not recognised in the income statement, as required or permitted by FRS. Reclassification adjustments are amounts reclassified to profit or loss in the income statement in the current period that were recognised in other comprehensive income in the current or previous periods.

Basis of Presentation

The consolidated financial statements include the financial statements made up to the end of the reporting year of the company and all of its subsidiaries. The consolidated financial statements are the financial statements of the group in which the assets, liabilities, equity, income, expenses and cash flows of the parent and its subsidiaries are presented as those of a single economic entity and 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 cash flows are eliminated on consolidation. The consolidated financial statements include the income and expenses of a subsidiary from the date the entity gains control until the date when the entity ceases to control the subsidiary. Income and expenses of the subsidiary are based on the amounts of the assets and liabilities recognised in the consolidated financial statements at the acquisition date.

Changes in the group’s ownership interest in a subsidiary that do not result in the loss of control are accounted for within equity as transactions with owners in their capacity as owners. The carrying amounts of the group’s and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. When the group loses control of a subsidiary it derecognises the assets and liabilities and related equity components of the former subsidiary. Any gain or loss is recognised in profit or loss. Any investment retained in the former subsidiary is measured at its fair value at the date when control is lost and is subsequently accounted as available-for-sale financial assets in accordance with FRS 39.

The company’s separate financial statements have been prepared on the same basis, and as permitted by the Companies Act, Chapter 50, the company’s separate statement of profit or loss and other comprehensive income is not presented.



NOTES TO THE FINANCIAL STATEMENTS

31 MARCH 2014

2. Summary of Significant Accounting Policies (Continued)

Basis of Preparation of the 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 year. 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.

Revenue Recognition

The revenue amount is the fair value of the consideration received or receivable from the gross inflow of economic benefits during the reporting year arising from the course of the activities of the entity and it is shown net of any related sales taxes and rebates. Revenue from the 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, and the amount of revenue and the costs incurred or to be incurred in respect of the transaction can be measured reliably. Interest is recognised using the effective interest method. Dividend from equity instruments is recognised as income when the entity's right to receive dividend is established.

Employee Benefits

Contributions to a defined contribution retirement benefit plan 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 an independently administered fund (such as the Central Provident Fund in Singapore, a government managed defined contribution retirement benefit plan). 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 based on past practice.

Pursuant to the relevant regulations of the People's Republic of China ("PRC") government, the subsidiaries in the PRC have each participated in a local municipal government retirement benefits scheme (the "Scheme"), whereby the subsidiaries in the PRC are required to contribute to a certain percentage to the basic salaries of its employees to the Scheme to fund their retirement benefits. The local municipal government undertakes to assume the retirement benefits obligations of those employees of the Group.

NOTES TO THE FINANCIAL STATEMENTS

31 MARCH 2014

2. Summary of Significant Accounting Policies (Continued)

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. Tax expense (tax income) is the aggregate amount included in the determination of profit or loss for the reporting year in respect of current tax and deferred tax. Current and deferred income taxes are recognised as income or as an expense in profit or loss unless the tax relates to items that are recognised in the same or a different period outside profit or loss. For such items recognised outside profit or loss the current tax and deferred tax are recognised (a) in other comprehensive income if the tax is related to an item recognised in other comprehensive income and (b) directly in equity if the tax is related to an item recognised directly in equity. 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 end of the reporting year 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 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 or asset is recognised for all taxable temporary differences associated with investments in subsidiaries except where the reporting entity is able to control the timing of the reversal of the taxable temporary difference and it is probable that the taxable temporary difference will not reverse in the foreseeable future or for deductible temporary differences, they will not reverse in the foreseeable future and they cannot be utilised against taxable profits.

Foreign Currency Transactions

The functional currency is the Singapore dollar ("S\$") as it reflects the primary economic environment in which the entity operates. Transactions in foreign currencies are recorded in the functional currency at the rates ruling at the dates of the transactions. At each end of the reporting year, recorded monetary balances and balances measured at fair value that are denominated in non-functional currencies are reported at the rates ruling at the end of the reporting year and fair value dates respectively. All realised and unrealised exchange adjustment gains and losses are dealt with in profit or loss except when recognised in other comprehensive income and if applicable deferred in equity such as qualifying cash flow hedges. The presentation currency is the Chinese Renminbi ("RMB") as the financial statements are meant primarily for users in China. For the RMB financial statements assets and liabilities are translated at year end rates of exchange and the income and expense items are translated at average rates of exchange for the reporting year. The resulting translation adjustments (if any) are recognised in other comprehensive income and accumulated in a separate component of equity. The translations of S\$ amounts into RMB amounts are included solely for the convenience of readers. The reporting year end rates used are RMB4.8969 to S\$1.00 (2013: RMB5.0582 to S\$1.00) which approximate the rate of exchange at the end of the reporting year. The average rates of exchange for the reporting year were RMB4.88017 to S\$1.00 (2013: RMB5.0798 to S\$1.00). 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.

Translation of Financial Statements of Other Entities

Each entity in the group determines the appropriate functional currency as it reflects the primary economic environment in which the relevant reporting entity operates. In translating the financial statements of such an entity for incorporation in the consolidated financial statements in the presentation currency the assets and liabilities denominated in other currencies are translated at end of the reporting year rates of exchange and the income and expense items for each statement presenting profit or loss and other comprehensive income are translated at average rates of exchange for the reporting year. The resulting translation adjustments (if any) are recognised in other comprehensive income and accumulated in a separate component of equity until the disposal of that relevant reporting entity.

NOTES TO THE FINANCIAL STATEMENTS

31 MARCH 2014

2. Summary of Significant Accounting Policies (Continued)

Segment Reporting

The group discloses financial and descriptive information about its consolidated reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Generally, financial information is reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments.

Borrowing Costs

Borrowing costs are interest and other costs incurred in connection with the borrowing of funds. The interest expense is calculated using the effective interest rate method. Borrowing costs are recognised as an expense in the period in which they are incurred except that 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.

Government Grants

A government grant is recognised at fair value when there is reasonable assurance that the conditions attaching to it will be complied with and that the grant will be received. Grants in recognition of specific expenses are recognised as income over the periods necessary to match them with the related costs that they are intended to compensate, on a systematic basis. A grant related to depreciable assets is allocated to income over the period in which such assets are used in the project subsidised by the grant. A government grant related to assets, including non-monetary grants at fair value, is presented in the statement of financial position by setting up the grant as deferred income.

Business Combinations

Business combinations are accounted for by applying the acquisition method. There were none during the reporting year.

Property, Plant and Equipment

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

| | | |
|---------------------|---|-------------|
| Leasehold property | - | 3.3% to 5%. |
| Plant and equipment | - | 5% 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.

Property, plant and equipment are carried at cost on initial recognition and after initial recognition at cost less any accumulated depreciation and any accumulated impairment losses. The gain or loss arising from the derecognition of an item of property, 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 profit or loss. The residual value and the useful life of an asset is reviewed at least at each end of the reporting year and, if expectations differ significantly 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, borrowing cost capitalised and any cost directly attributable to bringing the asset or component 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 profit or loss when they are incurred.

NOTES TO THE FINANCIAL STATEMENTS

31 MARCH 2014

2. Summary of Significant Accounting Policies (Continued)

Intangible Assets

An identifiable non-monetary asset without physical substance is recognised as an intangible asset at acquisition cost if it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity and the cost of the asset can be measured reliably. After initial recognition, an intangible asset with finite useful life is carried at cost less any accumulated amortisation and any accumulated impairment losses. An intangible asset with an indefinite useful life is not amortised. An intangible asset is regarded as having an indefinite useful life when, based on an analysis of all of the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the entity.

The amortisable amount of an intangible asset with finite useful life is allocated on a systematic basis over the best estimate of its useful life from the point at which the asset is ready for use. The useful lives are as follows:

| | | |
|------------------------|---|-----|
| Licenses | – | 10% |
| Customer relationships | – | 10% |

Identifiable intangible assets acquired as part of a business combination are initially recognised separately from goodwill if the asset's fair value can be measured reliably, irrespective of whether the asset had been recognised by the acquiree before the business combination. An intangible asset is considered identifiable only if it is separable or if it arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.

Land Use Rights

Land use rights are initially measured at cost. Following initial recognition, land use rights are measured at cost less accumulated amortisation and accumulated impairment losses. The land use rights are amortised over the remaining lease terms. The annual rate of amortisation is as follows:

| | | |
|-----------------|---|----------|
| Land use rights | – | 2% to 5% |
|-----------------|---|----------|

Subsidiaries

A subsidiary is an entity including unincorporated and special purpose entity that is controlled by the reporting entity. 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 or the ability to appoint or remove the majority of the members of the board of directors or to cast the majority of votes at meetings of the board of directors. 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 separate financial statements, an investment in a subsidiary is accounted for at cost less any allowance for impairment in value. Impairment loss recognised in profit or loss for a subsidiary is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying value and the net book value of the investment in a subsidiary are not necessarily indicative of the amount that would be realised in a current market.



NOTES TO THE FINANCIAL STATEMENTS

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2. Summary of Significant Accounting Policies (Continued)

Leases

Whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception date, that is, whether (a) fulfilment of the arrangement is dependent on the use of a specific asset or assets (the asset); and (b) the arrangement conveys a right to use the asset. Leases are classified as finance leases if substantially all the risks and rewards of ownership are transferred to the lessee. All other leases are classified as operating leases. At the commencement of the lease term, a finance lease is recognised as an asset and as a liability in the statement of financial position 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, 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 reporting year 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 reporting years 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 profit or loss 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 profit or loss as an integral part of the total lease expense.

Impairment of Non-Financial Assets

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 carrying amount of other non-financial assets is reviewed at each end of the reporting year for indications of impairment and where an asset is impaired, it is written down through profit or loss to its estimated recoverable amount. The impairment loss is the excess of the carrying amount over the recoverable amount and is recognised in profit or loss. The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs of disposal and its value in use. When the fair value less costs of disposal method is used, any available recent market transactions are taken into consideration. When the value in use method is adopted, in assessing the 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 end of the reporting year 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 measured, net of depreciation or amortisation, if no impairment loss had been recognised.

Financial Assets

Initial recognition, measurement and derecognition:

A financial asset is recognised on the statement of financial position when, and only when, the entity becomes a party to the contractual provisions of the instrument. The initial recognition of financial assets is at fair value normally represented by the transaction price. The transaction price for financial asset not classified at fair value through profit or loss includes the transaction costs that are directly attributable to the acquisition or issue of the financial asset. Transaction costs incurred on the acquisition or issue of financial assets classified at fair value through profit or loss are expensed immediately. The transactions are recorded at the trade date.

Irrespective of the legal form of the transactions performed, financial assets are derecognised when they pass the "substance over form" based on the derecognition test prescribed by FRS 39 relating to the transfer of risks and rewards of ownership and the transfer of control. Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is currently a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

NOTES TO THE FINANCIAL STATEMENTS

31 MARCH 2014

2. Summary of Significant Accounting Policies (Continued)

Financial Assets (Continued)

Subsequent measurement:

Subsequent measurement based on the classification of the financial assets in one of the following four categories under FRS 39 is as follows:

1. Financial assets at fair value through profit or loss: As at end of the reporting year date there were no financial assets classified in this category.
2. Loans and receivables: Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Assets that are for sale immediately or in the near term are not classified in this category. These assets are carried at amortised costs 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) minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility. Impairment charges are provided only when there is objective evidence that an impairment loss has been incurred 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. The methodology ensures that an impairment loss is not recognised on the initial recognition of an asset. Losses expected as a result of future events, no matter how likely, are not recognised. For impairment, the carrying amount of the asset is reduced through use of an allowance account. The amount of the loss is recognised in profit or loss. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. Typically the trade and other receivables are classified in this category.
3. Held-to-maturity financial assets: As at end of the reporting year date there were no financial assets classified in this category.
4. Available for sale financial assets: As at end of the reporting year date there were no financial assets classified in this category.

Cash and Cash Equivalents

Cash and cash equivalents include bank and cash balances, on demand deposits and any highly liquid debt instruments purchased with an original maturity of three months or less. For the statement of cash flows the item includes cash and cash equivalents less cash subject to restriction and bank overdrafts payable on demand that form an integral part of cash management.

Financial Liabilities

Initial recognition, measurement and derecognition:

A financial liability is recognised on the statement of financial position when, and only when, the entity becomes a party to the contractual provisions of the instrument and it is derecognised when the obligation specified in the contract is discharged or cancelled or expires. The initial recognition of financial liability is at fair value normally represented by the transaction price. The transaction price for financial liability not classified at fair value through profit or loss includes the transaction costs that are directly attributable to the acquisition or issue of the financial liability. Transaction costs incurred on the acquisition or issue of financial liability classified at fair value through profit or loss are expensed immediately. The transactions are recorded at the trade date. 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 end of the reporting year.



NOTES TO THE FINANCIAL STATEMENTS

31 MARCH 2014

2. Summary of Significant Accounting Policies (Continued)

Financial Liabilities (Continued)

Subsequent measurement:

Subsequent measurement based on the classification of the financial liabilities in one of the following two categories under FRS 39 is as follows:

1. Liabilities at fair value through profit or loss: Liabilities are classified in this category when they are incurred principally for the purpose of selling or repurchasing in the near term (trading liabilities) or are derivatives (except for a derivative that is a designated and effective hedging instrument) or have been classified in this category because the conditions are met to use the “fair value option” and it is used. Financial guarantee contracts if significant are initially recognised at fair value and are subsequently measured at the greater of (a) the amount determined in accordance with FRS 37 and (b) the amount initially recognised less, where appropriate, cumulative amortisation recognised in accordance with FRS 18. All changes in fair value relating to liabilities at fair value through profit or loss are charged to profit or loss as incurred.
2. Other financial liabilities: All liabilities, which have not been classified as in the previous category fall into this residual category. These liabilities are carried at amortised cost using the effective interest method. Trade and other payables and borrowings are usually classified in this category. Items classified within current 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.

Fair Value Measurement

Fair value is taken to be the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (that is, an exit price). It is a market-based measurement, not an entity-specific measurement. When measuring fair value, management uses the assumptions that market participants would use when pricing the asset or liability under current market conditions, including assumptions about risk. The entity's intention to hold an asset or to settle or otherwise fulfil a liability is not taken into account as relevant when measuring fair value. In making the fair value measurement, management determines the following: (a) the particular asset or liability being measured (these are identified and disclosed in the relevant notes below); (b) for a non-financial asset, the highest and best use of the asset and whether the asset is used in combination with other assets or on a stand-alone basis; (c) the market in which an orderly transaction would take place for the asset or liability; and (d) the appropriate valuation techniques to use when measuring fair value. The valuation techniques used maximise the use of relevant observable inputs and minimise unobservable inputs. These inputs are consistent with the inputs a market participant may use when pricing the asset or liability.

The fair value measurements and related disclosures categorise the inputs to valuation techniques used to measure fair value by using a fair value hierarchy of three levels. These are recurring fair value measurements unless state otherwise in the relevant notes to the financial statements. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for the asset or liability. The level is measured on the basis of the lowest level input that is significant to the fair value measurement in its entirety. Transfers between levels of the fair value hierarchy are deemed to have occurred at the beginning of the reporting year. If a financial instrument measured at fair value has a bid price and an ask price, the price within the bid-ask spread or mid-market pricing that is most representative of fair value in the circumstances is used to measure fair value regardless of where the input is categorised within the fair value hierarchy. If there is no market, or the markets available are not active, the fair value is established by using an acceptable valuation technique.

The carrying values of current financial instruments approximate their fair values due to the short-term maturity of these instruments and the disclosures of fair value are not made when the carrying amount of current financial instruments is a reasonable approximation of the fair value. The fair values of non-current financial instruments may not be disclosed separately unless there are significant differences at the end of the reporting year and in the event the fair values are disclosed in the relevant notes to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

31 MARCH 2014

2. Summary of Significant Accounting Policies (Continued)

Equity

Equity instruments are contracts that give a residual interest in the net assets of the reporting entity. Ordinary shares are classified as equity. Equity instruments are recognised at the amount of proceeds received net of incremental costs directly attributable to the transaction. Dividends on equity are recognised as liabilities when they are declared. Interim dividends are recognised when declared by the directors.

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. A provision is made using best estimates of the amount required in settlement 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. Changes in estimates are reflected in profit or loss in the reporting year they occur.

Critical Judgements, Assumptions and Estimation Uncertainties

The critical judgements made in the process of applying the accounting policies that have the most significant effect on the amounts recognised in the financial statements and the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting year, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities currently or within the next reporting year are discussed below. These estimates and assumptions are periodically monitored to ensure they incorporate all relevant information available at the date when financial statements are prepared. However, this does not prevent actual figures differing from estimates.

Property, plant and equipment:

An assessment is made for the reporting year whether there is any indication that the asset may be impaired. If any such indication exists, an estimate is made of the recoverable amount of the asset. The recoverable amounts of cash-generating units if applicable is measured based on the fair value less costs of disposal or value in use calculations. It is impracticable to disclose the extent of the possible effects. It is reasonably possible, based on existing knowledge, that outcomes within the next reporting year that are different from assumptions as disclosed in note 13 could require a material adjustment to the carrying amount of the balances affected. The carrying amount of the specific asset or class of assets at the end of the reporting year affected by the assumption is RMB243,687,000.

Allowance for doubtful trade accounts:

An allowance is made for doubtful trade 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 periods. Management generally analyses trade receivables and historical bad debts, customer concentrations, and customer creditworthiness when evaluating the adequacy of the allowance for doubtful trade receivables. To the extent that it is feasible impairment and uncollectibility is determined individually for each item. In cases where that process is not feasible, a collective evaluation of impairment is performed. At the end of the reporting year, the trade receivables carrying amount approximates the fair value and the carrying amounts might change materially within the next reporting year but these changes would not arise from assumptions or other sources of estimation uncertainty at the end of the reporting year. The carrying amount is disclosed in the Note on trade and other receivables.



NOTES TO THE FINANCIAL STATEMENTS

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2. Summary of Significant Accounting Policies (Continued)

Critical Judgements, Assumptions and Estimation Uncertainties (Continued)

Deferred tax asset estimation:

Management judgement is required in determining the amount of current and deferred tax recognised as income or expense and the extent to which deferred tax assets can be recognised. A deferred tax asset is recognised if it is more likely than not that sufficient taxable income will be available in the future against which the temporary differences and unused tax losses can be utilised. Management also considers future taxable income and tax planning strategies in assessing whether deferred tax assets should be recognised in order to reflect changed circumstances as well as tax regulations. As a result, due to their inherent nature, it is likely that deferred tax calculation relates to complex fact patterns for which assessments of likelihood are judgmental and not susceptible to precise determination. The related amounts are disclosed in Note 9.

Useful lives of plant and equipment:

The estimates for the useful lives and related depreciation charges for plant and equipment is based on commercial and other factors which could change significantly as a result of innovations and competitor actions in response to market conditions. The depreciation charge is increased where useful lives are less than previously estimated lives, or the carrying amounts written off or written down for technically obsolete items or assets that have been abandoned. It is impracticable to disclose the extent of the possible effects. It is reasonably possible, based on existing knowledge, that outcomes within the next reporting year that are different from assumptions could require a material adjustment to the carrying amount of the balances affected. The carrying amount of the specific asset (or class of assets) at the end of the reporting year affected by the assumption is RMB126,674,000 (2013: RMB144,759,000).

Leasehold property and Land use rights:

The group has leasehold property and land use rights stated at carrying value of RMB99,979,000 (2013: RMB75,717,000) and RMB90,977,000 (2013: RMB92,635,000) respectively. An assessment is made at each reporting date whether there is any indication that the assets may be impaired. If any indication exists, an estimate is made of the recoverable amount of the assets. The recoverable amount of cash-generating units will be determined based on value-in-use calculations. These calculations require the use of estimates. It is impracticable to disclose the extent of the possible effects. It is reasonably possible, based on existing knowledge, that outcomes within the next financial year that are different from assumptions as disclosed in note 13 and 15.

Carrying value of intangible asset:

An assessment is made of the carrying value of identifiable intangible assets annually, or more frequently if events or changes in circumstances indicate that such carrying value may not be recoverable. Factors that trigger an impairment review include underperformance relative to historical or projected future results, significant changes in the manner of the use of the acquired assets or the strategy for the overall business and significant negative industry or economic trends. The most significant variables in determining cash flows are discount rates, terminal values, the number of years on which to base the cash flow projections, as well as the assumptions and estimates used to determine the cash inflows and outflows. Amounts estimated could differ materially from what will actually occur in the future. The carrying amount of intangible assets at the end of the reporting year affected by the assumption is RMB3,953,000 (2013: RMB4,815,000).

NOTES TO THE FINANCIAL STATEMENTS

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3. Related Party Relationships and Transactions

FRS 24 defines a related party as a person or entity that is related to the reporting entity and it includes (a) A person or a close member of that person's family if that person: (i) has control or joint control over the reporting entity; (ii) has significant influence over the reporting entity; or (iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity. (b) An entity is related to the reporting entity if any of the following conditions apply: (i) The entity and the reporting entity are members of the same group. (ii) One entity is an associate or joint venture of the other entity. (iii) Both entities are joint ventures of the same third party. (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity. (v) The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. (vi) The entity is controlled or jointly controlled by a person identified in (a). (vii) A person identified in (a) (i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

3.1 Related companies:

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

There are transactions and arrangements between the reporting entity and members of the group and the effects of these on the basis determined between the parties are reflected in these financial statements. The intercompany balances are unsecured without fixed repayment terms and interest unless stated otherwise. For any non-current balances and financial guarantees no interest or charge is imposed unless stated otherwise.

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

3.2. Related parties other than related companies:

There are transactions and arrangements between the reporting entity and related parties and the effects of these on the basis determined between the parties are reflected in these financial statements. The related party balances are unsecured without fixed repayment terms and interest unless stated otherwise. For any non-current balances and financial guarantees no interest or charge is imposed unless stated otherwise.

Significant related party transactions:

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

| | Group | |
|-------------------|-----------------------|----------|
| | Other related parties | |
| | 2014 | 2013 |
| | RMB'000 | RMB'000 |
| Sales of goods | (45,136) | (37,139) |
| Rental expenses | 77 | 316 |
| Purchase of goods | 701 | 392 |
| Freight charges | 5,315 | 6,027 |

NOTES TO THE FINANCIAL STATEMENTS

31 MARCH 2014

3. Related Party Relationships and Transactions (Continued)

3.3 Key management compensation:

| | Group | |
|---|---------|---------|
| | 2014 | 2013 |
| | RMB'000 | RMB'000 |
| Salaries and other short-term employee benefits | 5,433 | 6,777 |

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

| | 2014 | 2013 |
|--|---------|---------|
| | RMB'000 | RMB'000 |
| Remuneration of directors of the company | 1,774 | 3,162 |
| Fees to directors of the company | 1,640 | 1,707 |

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

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

3.4 Other receivables from and other payables to related parties:

The trade transactions and the related 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:

| Other related parties | Group | |
|---|---------|----------|
| | 2014 | 2013 |
| | RMB'000 | RMB'000 |
| <u>Other payables:</u> | | |
| Balance at beginning of the year | (2,468) | (89,557) |
| Amounts paid out and settlement of liabilities on behalf of related parties | 7,183 | 93,628 |
| Amounts paid in and settlement of liabilities on behalf of the company | (6,016) | (6,539) |
| Balance at end of the year – net credit (Note 23) | (1,301) | (2,468) |

Related parties refer to companies in which a director or his immediate family have significant or controlling interest.

NOTES TO THE FINANCIAL STATEMENTS

31 MARCH 2014

4. Financial Information by Operating Segments

4A. Information about Reportable Segment Profit or Loss, Assets and Liabilities

Disclosure of information about operating segments, products and services, the geographical areas, and the major customers are made as required by FRS 108 Operating Segments. This disclosure standard has no impact on the reported results or financial position of the reporting entity.

For management purposes the report entity is organised into four major operating segments: explosives devices, industrial fuse and initiating explosives devices, industrial detonators and ammonium nitrate. Such a structural organisation is determined by the nature of risks and returns associated to each business segment and defines the management structure as well as the internal reporting system. It represents the basis on which the management reports the primary segment information. They are managed separately because each business requires different strategies.

The segments and the types of products and services are as follows:

- (i) The explosives devices segment is a manufacturer of boosters and seismic charges that are used to enhance the power of the explosions and for oil and gas explorations.
- (ii) The industrial fuse and initiating explosives devices segment is a manufacturer of detonating cords and non-electric tubes.
- (iii) The industrial detonators segment is a manufacturer of non-electric detonators which are used in methane-free and mine-dust-free explosion projects, detonation projects in the mining industry, the excavation of alleys and tunnels, controlled explosions and underwater demolitions.
- (iv) The ammonium nitrate segment is a manufacturer of ammonium nitrate which is a major raw material used primarily for the manufacture of explosives.

Inter-segment sales are measured on the basis that the entity actually used to price the transfers. Internal transfer pricing policies of the group are as far as practicable based on market prices. The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies.

The management reporting system evaluates performances based on a number of factors. However the primary profitability measurement to evaluate segment's operating results comprises two major financial indicators: (1) earnings from operations before depreciation, amortisation, interests and income taxes (called "Recurring EBITDA") and (2) operating result before interests and income taxes and other unallocated items (called "ORBIT").

The following tables illustrate the information about the reportable segment profit or loss, assets and liabilities.

NOTES TO THE FINANCIAL STATEMENTS

31 MARCH 2014

4. Financial Information by Operating Segments (Continued)

4B. Profit or Loss from Continuing Operations and Reconciliations

| | Explosives devices | Industrial fuse and initiating devices | Industrial detonators | Ammonium nitrate | Unallocated | Total |
|--|-----------------------|---|--------------------------|---------------------|-------------|----------|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Continuing Operations 2014 | | | | | | |
| Revenue by Segment | 126,227 | 89,505 | 91,678 | 85,101 | 479 | 392,990 |
| Total revenue | 126,227 | 89,505 | 91,678 | 85,101 | 479 | 392,990 |
| Recurring EBITDA | 27,493 | 31,477 | 32,586 | (4,848) | 137 | 86,845 |
| Depreciation | (2,511) | (1,306) | (6,959) | (5,167) | (4,618) | (20,561) |
| Amortisation | (212) | – | (232) | (1,140) | (2,080) | (3,664) |
| Impairment of property, plant and equipment | – | – | – | (60,000) | – | (60,000) |
| ORBIT | 24,770 | 30,171 | 25,395 | (71,155) | (6,561) | 2,620 |
| Interest income | | | | | 665 | 665 |
| Finance costs | | | | | (6,905) | (6,905) |
| Unallocated corporate expenses | | | | | (38,778) | (38,778) |
| Loss before tax from continuing operations | | | | | | (42,398) |
| Income tax expense | | | | | | (15,145) |
| Loss from continuing operations | | | | | | (57,543) |

| | Explosives devices | Industrial fuse and initiating devices | Industrial detonators | Ammonium nitrate | Unallocated | Total |
|---|-----------------------|---|--------------------------|---------------------|-------------|----------|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Continuing Operations 2013 | | | | | | |
| Revenue by Segment | 165,541 | 105,576 | 85,802 | 131,102 | 1,060 | 489,081 |
| Total revenue | 165,541 | 105,576 | 85,802 | 131,102 | 1,060 | 489,081 |
| Recurring EBITDA | 45,003 | 44,888 | 35,200 | 4,355 | 833 | 130,279 |
| Depreciation | (2,522) | (1,352) | (6,946) | (5,449) | (3,891) | (20,160) |
| Amortisation | (297) | – | (233) | (1,152) | (1,833) | (3,515) |
| ORBIT | 42,184 | 43,536 | 28,021 | (2,246) | (4,891) | 106,604 |
| Interest income | | | | | 884 | 884 |
| Finance costs | | | | | (3,073) | (3,073) |
| Unallocated corporate expenses | | | | | (48,263) | (48,263) |
| Profit before tax from continuing operations | | | | | | 56,152 |
| Income tax expense | | | | | | (24,644) |
| Profit from continuing operations | | | | | | 31,508 |

NOTES TO THE FINANCIAL STATEMENTS

31 MARCH 2014

4. Financial Information by Operating Segments (Continued)

4C. Assets and Reconciliations

| | Explosives devices | Industrial fuse and initiating devices | Industrial detonators | Ammonium nitrate | Unallocated | Total |
|--------------------------------------|-----------------------|---|--------------------------|---------------------|----------------|----------------|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| 2014 | | | | | | |
| Total assets for reportable segments | 68,416 | 83,303 | 102,792 | 67,621 | – | 322,132 |
| Unallocated: | | | | | | |
| Property, plant and equipment | | | | | 53,299 | 53,299 |
| Other assets, non-current | | | | | 43,035 | 43,035 |
| Deferred tax assets | | | | | 3,183 | 3,183 |
| Inventories | | | | | 22,449 | 22,449 |
| Trade and other receivables | | | | | 65,858 | 65,858 |
| Other assets, current | | | | | 4,470 | 4,470 |
| Cash and cash equivalents | | | | | 88,451 | 88,451 |
| Total group assets | 68,416 | 83,303 | 102,792 | 67,621 | 280,745 | 602,877 |

| | Explosives devices | Industrial fuse and initiating devices | Industrial detonators | Ammonium nitrate | Unallocated | Total |
|--------------------------------------|-----------------------|---|--------------------------|---------------------|----------------|----------------|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| 2013 | | | | | | |
| Total assets for reportable segments | 63,788 | 64,245 | 106,208 | 164,247 | – | 398,488 |
| Unallocated: | | | | | | |
| Property, plant and equipment | | | | | 50,436 | 50,436 |
| Other assets, non-current | | | | | 43,971 | 43,971 |
| Deferred tax assets | | | | | 4,428 | 4,428 |
| Inventories | | | | | 28,627 | 28,627 |
| Trade and other receivables | | | | | 80,366 | 80,366 |
| Other assets, current | | | | | 7,356 | 7,356 |
| Cash and cash equivalents | | | | | 87,235 | 87,235 |
| Total group assets | 63,788 | 64,245 | 106,208 | 164,247 | 302,419 | 700,907 |



NOTES TO THE FINANCIAL STATEMENTS

31 MARCH 2014

4. Financial Information by Operating Segments (Continued)

4D. Liabilities and Reconciliations

| | Explosives devices | Industrial fuse and initiating devices | Industrial detonators | Ammonium nitrate | Unallocated | Total |
|---|-----------------------|---|--------------------------|---------------------|----------------|----------------|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| 2014 | | | | | | |
| Total liabilities for reportable segments | 2,175 | 1,182 | 2,768 | 72,317 | – | 78,442 |
| Unallocated: | | | | | | |
| Deferred tax liabilities | | | | | 3,781 | 3,781 |
| Income tax payable | | | | | 689 | 689 |
| Trade and other payables | | | | | 73,023 | 73,023 |
| Other liabilities | | | | | 5,176 | 5,176 |
| Other financial liabilities | | | | | 48,000 | 48,000 |
| Total group liabilities | 2,175 | 1,182 | 2,768 | 72,317 | 130,669 | 209,111 |

| | Explosives devices | Industrial fuse and initiating devices | Industrial detonators | Ammonium nitrate | Unallocated | Total |
|---|-----------------------|---|--------------------------|---------------------|----------------|----------------|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| 2013 | | | | | | |
| Total liabilities for reportable segments | 2,068 | 708 | 1,839 | 93,956 | – | 98,571 |
| Unallocated: | | | | | | |
| Deferred tax liabilities | | | | | 5,144 | 5,144 |
| Income tax payable | | | | | 3,316 | 3,316 |
| Trade and other payables | | | | | 63,772 | 63,772 |
| Other liabilities | | | | | 1,708 | 1,708 |
| Other financial liabilities | | | | | 68,007 | 68,007 |
| Total group liabilities | 2,068 | 708 | 1,839 | 93,956 | 141,947 | 240,518 |

NOTES TO THE FINANCIAL STATEMENTS

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4. Financial Information by Operating Segments (Continued)

4E. Other Material Items and Reconciliations

| | Explosives devices | Industrial fuse and initiating devices | Industrial detonators | Ammonium nitrate | Unallocated | Total |
|---|-----------------------|---|--------------------------|---------------------|-------------|---------|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Impairment of assets: | | | | | | |
| 2014 | - | - | - | 60,000 | - | 60,000 |
| 2013 | - | - | - | - | - | - |
| Other non-cash expenses other than depreciation/amortisation: | | | | | | |
| 2014 | - | - | - | - | 319 | 319 |
| 2013 | - | - | - | - | 2,111 | 2,111 |
| Expenditures for non-current assets: | | | | | | |
| 2014 | 4,317 | 19,102 | 2,449 | 7,670 | 9,156 | 42,694 |
| 2013 | 6,533 | 35,815 | 1,949 | 23,698 | 4,721 | 72,716 |

4F. Geographical Information

The following table provides an analysis of the group revenue by geographical market irrespective of the origin of the goods and services and non-current assets by geographical market:-

| | Revenue | | Non-current assets | |
|-----------------------------------|---------|---------|--------------------|---------|
| | 2014 | 2013 | 2014 | 2013 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Within PRC | 277,403 | 352,095 | 338,385 | 381,874 |
| Outside PRC: | | | | |
| Sales through export distributors | 12,930 | 24,415 | - | - |
| Australia | 95,004 | 98,007 | - | - |
| Singapore | - | - | 232 | 191 |
| Others (*) | 7,653 | 14,564 | - | - |
| Subtotal | 115,587 | 136,986 | 232 | 191 |
| Total continuing operations | 392,990 | 489,081 | 338,617 | 382,065 |

(*) Others include Kyrgyzstan, Mongolia, Indonesia

Revenues are attributed to countries on the basis of the customer's location. The non-current assets are analysed by the geographical area in which the assets are located. The non-current assets exclude any financial instruments and deferred tax assets.

4G. Information about Major Customers

| | Group | |
|--|---------|---------|
| | 2014 | 2013 |
| | RMB'000 | RMB'000 |
| Top 1 customer in explosives devices segment | 60,758 | 58,168 |

NOTES TO THE FINANCIAL STATEMENTS

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5. Revenue

| | Group | |
|---------------|---------|---------|
| | 2014 | 2013 |
| | RMB'000 | RMB'000 |
| Sale of goods | 392,990 | 489,081 |

6. Interest Income and (Finance Costs)

| | Group | |
|---------------------------------|---------|---------|
| | 2014 | 2013 |
| | RMB'000 | RMB'000 |
| Interest income | 665 | 884 |
| Bank interest expense | (6,905) | (3,070) |
| Finance lease interest expense | – | (3) |
| Net | (6,240) | (2,189) |
| Presented in profit or loss as: | | |
| Interest Income | 665 | 884 |
| Finance Costs | (6,905) | (3,073) |
| Net | (6,240) | (2,189) |

7. Other Credits and (Other Charges)

| | Group | |
|--|----------|---------|
| | 2014 | 2013 |
| | RMB'000 | RMB'000 |
| Bad debts written-off trade receivables | (5) | (8) |
| Write-back of payables | 1,255 | – |
| Foreign exchange adjustment gain/(loss) | 47 | (1,121) |
| (Loss)/Gain on disposal of property, plant and equipment | (1,213) | 71 |
| Gain on disposal of land use rights | – | 128 |
| Government grant | 806 | 1,988 |
| Property, plant and equipment written-off | – | (1,087) |
| Allowance for impairment on trade and other receivables - loss | (1,370) | (1,031) |
| Allowance for impairment on trade and other receivables - reversal | 171 | 24 |
| Allowance for impairment on inventories – loss | (328) | (208) |
| Impairment allowance on property, plant and equipment | (60,000) | – |
| Net | (60,637) | (1,244) |
| Presented in profit or loss as: | | |
| Other Credits | 2,279 | 2,211 |
| Other Charges | (62,916) | (3,455) |
| Net | (60,637) | (1,244) |

NOTES TO THE FINANCIAL STATEMENTS

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8. Employee Benefits Expense

| | Group | |
|---|---------|---------|
| | 2014 | 2013 |
| | RMB'000 | RMB'000 |
| Employee benefits expense | 62,400 | 57,436 |
| Contributions to defined contribution plans | 13,810 | 13,080 |
| Total employee benefits expense | 76,210 | 70,516 |

The employee benefit expense is charged as follows:

| | Cost of Sales | Distribution Costs | Administrative Expenses | Total |
|--------|------------------|-----------------------|----------------------------|---------|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Group: | | | | |
| 2014 | 56,614 | 4,743 | 14,853 | 76,210 |
| 2013 | 49,526 | 5,059 | 15,931 | 70,516 |

9. Income Tax

9A. Components of tax expense (income) recognised in profit or loss include:

| | Group | |
|--|---------|---------|
| | 2014 | 2013 |
| | RMB'000 | RMB'000 |
| <u>Current tax expense</u> | | |
| Current tax expense | 10,287 | 19,124 |
| Under adjustments to current tax in respect of prior periods | 3,998 | 5,615 |
| Subtotal | 14,285 | 24,739 |
| <u>Deferred tax income</u> | | |
| Deferred tax expense (income) | 860 | (95) |
| Subtotal | 860 | (95) |
| Total income tax expense | 15,145 | 24,644 |

NOTES TO THE FINANCIAL STATEMENTS

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9. Income Tax Expense (Continued)

9A. Components of tax expense recognised in profit or loss include (Continued):

The income tax in profit or loss varied from the amount of income tax amount determined by applying the Singapore income tax rate of 17.0% (2013: 17.0%) to profit before income tax as a result of the following differences:

| | Group | |
|--|----------|---------|
| | 2014 | 2013 |
| | RMB'000 | RMB'000 |
| (Loss)/Profit Before Tax | (42,398) | 56,152 |
| Income tax (income)/expense at the above rate | (7,208) | 9,546 |
| Not deductible items | 16,172 | 4,001 |
| Under adjustments to tax in respect of prior periods | 3,998 | 5,615 |
| Effect of different tax rate in foreign countries | 2,183 | 5,482 |
| Total income tax expense | 15,145 | 24,644 |

The prevailing statutory income tax rate in the People's Republic of China ("PRC") is 25%.

The amount of income tax payable outstanding as at end of the reporting year was RMB689,000 (2013: RMB3,316,000). Such an amount is net of tax advances, which according to the tax rules, were paid before the end of the reporting year.

The expiry dates of tax effect of tax losses carryforwards are as follows:

| | Group | |
|------|---------|---------|
| | 2014 | 2013 |
| | RMB'000 | RMB'000 |
| 2018 | 2,574 | 2,574 |
| 2019 | 12,125 | - |
| | 14,699 | 2,574 |

It is impracticable to estimate the amount expected to be settled or used within one year. For the People's Republic of China, the realisation of the future income tax benefits from tax loss carryforwards is available for a period of 5 years subject to the conditions imposed by law. Deferred tax asset has not been recognised in respect of the above tax losses as the future profit streams within the 5 year period are not certain.

There are no income tax consequences of dividends to owners of the company.



NOTES TO THE FINANCIAL STATEMENTS

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9. Income Tax Expense (Continued)

9B. Deferred tax expense (income) recognised in profit or loss include:

| | Group | |
|--|---------|---------|
| | 2014 | 2013 |
| | RMB'000 | RMB'000 |
| Excess of tax values over net book value of plant and equipment | 4 | 4 |
| Excess of net book value of land use rights over tax values | (26) | (287) |
| Excess of net book value of licences and customer relationship over tax values | (216) | (216) |
| Allowance for impairment of trade and other receivables | 977 | (258) |
| Allowance for impairment of inventories | – | 26 |
| Accrual for safety expenses | 268 | (64) |
| Deferred tax charge relating to unremitted profits of a subsidiary | (1,125) | 700 |
| Total deferred income tax income recognised in profit or loss | (118) | (95) |

9C. Deferred tax balance in the statement of financial position:

| | Group | |
|--|---------|---------|
| | 2014 | 2013 |
| | RMB'000 | RMB'000 |
| <u>Deferred tax liabilities recognised in profit or loss:</u> | | |
| Excess of net book value of plant and equipment over tax values | (2,150) | (2,150) |
| Excess of tax values over net book value of plant and equipment | 100 | 104 |
| Excess of net book value of land use rights over tax values | (1,041) | (1,067) |
| Excess of net book value of licences and customer relationship over tax values | (987) | (1,203) |
| Allowance for impairment of trade and other receivables | 3,131 | 4,108 |
| Allowance for impairment of inventories | 52 | 52 |
| Accrual for safety expenses | 1,272 | 1,540 |
| Deferred tax charge relating to unremitted profits of a subsidiary | (975) | (2,100) |
| Net balance | (598) | (716) |

Presented in the statement of financial position as follows:

| | Group | |
|--------------------------|---------|---------|
| | 2014 | 2013 |
| | RMB'000 | RMB'000 |
| Deferred tax liabilities | (3,781) | (5,144) |
| Deferred tax assets | 3,183 | 4,428 |
| Net position | (598) | (716) |

NOTES TO THE FINANCIAL STATEMENTS

31 MARCH 2014

9. Income Tax Expense (Continued)

9C. Deferred tax balance in the statement of financial position: (Continued)

It is impracticable to estimate the amount expected to be settled or used within one year.

At the end of the reporting year, the aggregate amount of temporary differences associated with investments in subsidiaries for which deferred tax liabilities have not been recognised are as follows.

| | Group | |
|--------------|---------|---------|
| | 2014 | 2013 |
| | RMB'000 | RMB'000 |
| Subsidiaries | 9,548 | 10,869 |

10. (Loss)/Earnings Per Share

The following table illustrates the numerators and denominators used to calculate basic and diluted (loss)/earnings per share of no par value:

| | Group | |
|---|----------|---------|
| | 2014 | 2013 |
| A. Numerators: (loss)/earnings attributable to equity: | | |
| Continuing operations: attributable to equity holders (RMB'000) | (57,543) | 31,508 |
| B. Denominators: weighted average number of equity shares | | |
| Basic and Diluted ('000) | 234,000 | 234,000 |

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.

11. Dividends on Equity Shares

| | Group | |
|--|---------|---------|
| | 2014 | 2013 |
| | RMB'000 | RMB'000 |
| Final tax exempt (1-tier) dividend paid of S\$0.7 cents (2013: S\$1.0 cents) per share | 7,918 | 11,831 |

In respect of the current year, the directors propose that a special dividend of S\$0.2 cents (2013: final dividend of S\$0.7 cents) per share, an estimated total of RMB2,426,000 (2013: RMB8,285,000) be paid to shareholders after the annual general meeting. There are no income tax consequences. This dividend is subject to approval by shareholders at the next annual general meeting and has not been included as a liability in these financial statements. The proposed dividend for 2014 is payable in respect of all ordinary shares in issue at the end of the reporting year and including the new qualifying shares issued up to the date the dividend becomes payable.

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12. Items in the Profit or Loss

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

| | Group | |
|--|---------|---------|
| | 2014 | 2013 |
| | RMB'000 | RMB'000 |
| Audit fees to auditors of the company | 351 | 365 |
| Audit fees to other auditors | 210 | 210 |
| Non-audit fees paid to the auditors of the company | 11 | 10 |

13. Property, Plant and Equipment

| Group | Leasehold property | Plant and equipment | Construction in-progress | Total |
|---|-----------------------|------------------------|-----------------------------|---------|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Cost: | | | | |
| At 1 April 2012 | 87,844 | 201,085 | 259 | 289,188 |
| Additions | 101 | 8,345 | 63,880 | 72,326 |
| Disposals | (29) | (1,793) | – | (1,822) |
| Assets written-off | (270) | (1,970) | – | (2,240) |
| Foreign exchange adjustments | – | 7 | – | 7 |
| At 31 March 2013 | 87,646 | 205,674 | 64,139 | 357,459 |
| Additions | – | 9,793 | 31,757 | 41,550 |
| Reclassification | 33,487 | 18,270 | (51,757) | – |
| Disposals | – | (5,276) | – | (5,276) |
| Foreign exchange adjustments | – | (39) | – | (39) |
| At 31 March 2014 | 121,133 | 228,422 | 44,139 | 393,694 |
| Accumulated depreciation and impairment: | | | | |
| At 1 April 2012 | 7,770 | 47,014 | – | 54,784 |
| Depreciation for the year | 4,172 | 15,988 | – | 20,160 |
| Disposals | – | (952) | – | (952) |
| Foreign exchange adjustments | – | 5 | – | 5 |
| Assets written-off | (13) | (1,140) | – | (1,153) |
| At 31 March 2013 | 11,929 | 60,915 | – | 72,844 |
| Depreciation for the year | 4,145 | 16,416 | – | 20,561 |
| Disposals | – | (3,365) | – | (3,365) |
| Impairment for the year | 5,080 | 27,815 | 27,105 | 60,000 |
| Foreign exchange adjustments | – | (33) | – | (33) |
| At 31 March 2014 | 21,154 | 101,748 | 27,105 | 150,007 |
| Net book value: | | | | |
| At 1 April 2012 | 80,074 | 154,071 | 259 | 234,404 |
| At 31 March 2013 | 75,717 | 144,759 | 64,139 | 284,615 |
| At 31 March 2014 | 99,979 | 126,674 | 17,034 | 243,687 |

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13. Property, Plant and Equipment (Continued)

| Company | Plant and equipment RMB'000 |
|----------------------------------|-----------------------------------|
| Cost: | |
| At 1 April 2012 | 1,132 |
| Additions | 11 |
| Foreign exchange adjustments | 7 |
| At 31 March 2013 | 1,150 |
| Additions | 151 |
| Disposals | (517) |
| Foreign exchange adjustments | (39) |
| At 31 March 2014 | 745 |
| Accumulated depreciation: | |
| At 1 April 2012 | 884 |
| Depreciation for the year | 70 |
| Foreign exchange adjustments | 5 |
| At 31 March 2013 | 959 |
| Depreciation for the year | 104 |
| Disposals | (517) |
| Foreign exchange adjustments | (33) |
| At 31 March 2014 | 513 |
| Net book value: | |
| At 1 April 2012 | 248 |
| At 31 March 2013 | 191 |
| At 31 March 2014 | 232 |

- i) During the reporting year, the property, plant and equipment in Hebei Yinguang Chemical Co., Ltd. with a carrying amount of RMB67,049,000 was impaired by RMB60,000,000 due to its weak performance. This arose from the management's regular review of the recoverable amount of property, plant and equipment. Management estimated the recoverable amount of the assets on the basis of its value in use (Level 3). The discount rate used in measuring value in use was 12.3%.
- ii) Certain equipment of the group and the company are held under finance lease (Note 22A). Certain properties are subject to a charge (Note 22B).
- iii) Assets under construction represent cost incurred for the construction of a production facility.



NOTES TO THE FINANCIAL STATEMENTS

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13. Property, Plant and Equipment (Continued)

vi) The depreciation expense is charged as follows:

| | Cost of sales | Administrative expenses | Charge against provision for safety expenses | Total |
|---------------|---------------|-------------------------|--|---------|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Group: | | | | |
| 2014 | 15,767 | 3,104 | 1,690 | 20,561 |
| 2013 | 16,348 | 2,040 | 1,772 | 20,160 |

Borrowing costs included in the cost of qualifying assets are as follows:

| | Group | |
|---|----------------|---------|
| | 2014 | 2013 |
| | RMB'000 | RMB'000 |
| Capitalisation rates | 7.20% to 7.28% | – |
| Borrowing costs capitalised included in additions during the year | 1,559 | – |
| Accumulated interest capitalized included in the cost of construction-in-progress total | 1,559 | – |

14. Intangible Assets

| | Group | | Company | |
|------------------------|---------|---------|---------|---------|
| | 2014 | 2013 | 2014 | 2013 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Licenses | 2,215 | 2,698 | – | – |
| Customer relationships | 1,738 | 2,117 | – | – |
| Total | 3,953 | 4,815 | – | – |

NOTES TO THE FINANCIAL STATEMENTS

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14. Intangible Assets (Continued)

| Group | Licenses | Customer relationships | Total |
|--|----------|------------------------|---------|
| | RMB'000 | RMB'000 | RMB'000 |
| Cost: | | | |
| At 1 April 2012, 31 March 2013 and 31 March 2014 | 4,833 | 3,792 | 8,625 |
| Accumulated amortisation: | | | |
| At 1 April 2012 | 1,651 | 1,296 | 2,947 |
| Amortisation for the year | 484 | 379 | 863 |
| At 31 March 2013 | 2,135 | 1,675 | 3,810 |
| Amortisation for the year | 483 | 379 | 862 |
| At 31 March 2014 | 2,618 | 2,054 | 4,672 |
| Net book value: | | | |
| At 1 April 2012 | 3,182 | 2,496 | 5,678 |
| At 31 March 2013 | 2,698 | 2,117 | 4,815 |
| At 31 March 2014 | 2,215 | 1,738 | 3,953 |

15. Other Assets

| | Group | | Company | |
|---|---------|---------|---------|---------|
| | 2014 | 2013 | 2014 | 2013 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Non-Current: | | | | |
| Land use rights (Note 15A) | 90,977 | 92,635 | – | – |
| Subtotal | 90,977 | 92,635 | – | – |
| Current: | | | | |
| Deposits | 67 | – | 67 | – |
| Prepayments | 1,242 | 2,261 | 75 | 66 |
| Advances to suppliers | 5,464 | 9,232 | – | – |
| Advances to a related party supplier (Note 3) | – | 1,161 | – | – |
| Advances to staff | 951 | 2,426 | – | – |
| Subtotal | 7,724 | 15,080 | 142 | 66 |
| | 98,701 | 107,715 | 142 | 66 |

NOTES TO THE FINANCIAL STATEMENTS

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15. Other Assets (Continued)

15A. Land Use Rights

| Group | RMB'000 |
|---|---------|
| <u>Cost:</u> | |
| At 1 April 2012 | 102,210 |
| Additions for the year | 390 |
| Disposal during the year | (3,095) |
| At 31 March 2013 | 99,505 |
| Additions for the year | 1,144 |
| At 31 March 2014 | 100,649 |
| <u>Accumulated amortisation:</u> | |
| At 1 April 2012 | 4,456 |
| Amortisation for the year | 2,652 |
| Disposal during the year | (238) |
| At 31 March 2013 | 6,870 |
| Amortisation for the year | 2,802 |
| At 31 March 2014 | 9,672 |
| <u>Net book value:</u> | |
| At 1 April 2012 | 97,754 |
| At 31 March 2013 | 92,635 |
| At 31 March 2014 | 90,977 |

- (i) Included in the land use rights are four plots of land at Fei County, Linyi City on which certain of the group's production facilities are located. As at 31 March 2014, the group has yet to obtain the legal titles for 2 parcel of land. The group has estimated the cost of the remaining land use rights without legal title to be approximately RMB7.7 million (2013: RMB6.0 million), of which only RMB3.2 million (2013: RMB2.1 million) has been paid. This amount has been capitalized as part of the cost of the land use right. The formal process to transfer the title will commence if there is no public objection prior to 28 April 2014. There is no public objection up to 28 April 2014.
- (ii) The group acquired 11 plots of land, i.e. 11 land use rights, from a related party in the financial year ended 31 March 2012. As at 31 March 2013, all the legal titles of 11 plots of land have been transferred to the group. As at 31 March 2013, the remaining amount of RMB2 million included in the other payables (Note 23). This amount has been fully settled during year ended 31 March 2014.
- (iii) The group has obtained the legal title to the land use rights for the land at Zaozhuang City in financial year ended 31 March 2010. However, the consideration for this plot of land has yet to be finalised with the local government authorities. The cost of the land use rights, included in the financial statements, was estimated to be RMB 17.0 million based on an independent valuation report obtained in financial year ended 31 March 2010.

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15. Other Assets (Continued)

15A. Land Use Rights (Continued)

Detail of the group's land use rights (excluding those plots of land located in Fei County, Linyi City that have yet to receive the land use rights):

| Address | Land Area (Sq m) | Date of Grant | Lease Expiry Date |
|---|---------------------|------------------|----------------------|
| Section of Chenlin, North to the Han-Lin Highway, Linxi County, Xingtai City | 102,836 | 10 January 2007 | April 2055 |
| Shanting District, North Town, Tieshan Village, East of Huangshan, Zaozhuang City | 90,464 | 24 December 2008 | 17 October 2058 |
| Taoyuan Village, Feicheng Town, Fei County, Linyi City | 49,511 | 29 January 2010 | 16 December 2059 |
| Tulonggou Village, Feicheng Town, Fei County, Linyi City | 40,822 | 23 April 2010 | 16 December 2059 |
| Changsheng Village, Fei Town, Fei County, Linyi City | 6,023 | 23 March 2012 | 19 November 2048 |
| Changsheng Village, Fei Town, Fei County, Linyi City | 23,957 | 23 March 2012 | 19 December 2030 |
| Changsheng Village, Fei Town, Fei County, Linyi City | 26,358 | 23 March 2012 | 16 March 2048 |
| Changsheng Village, Fei Town, Fei County, Linyi City | 41,624 | 23 March 2012 | 7 November 2048 |
| Kele Village, Zhutian Town, Fei County, Linyi City | 30,933 | 23 March 2012 | 15 December 2030 |
| Kele Village, Zhutian Town, Fei County, Linyi City | 13,262 | 23 March 2012 | 25 January 2055 |

16. Investment in Subsidiaries

| | Company | |
|---|----------------|----------------|
| | 2014 | 2013 |
| | RMB'000 | RMB'000 |
| Unquoted equity shares at cost | 113,143 | 113,143 |
| Foreign currency translation difference | (2,757) | 879 |
| | <u>110,386</u> | <u>114,022</u> |
| Net book value of subsidiaries | <u>388,281</u> | <u>435,664</u> |
| Analysis of above amount denominated in non-functional currency: China RMB | <u>110,386</u> | <u>114,022</u> |

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16. Investment in Subsidiaries (Continued)

The subsidiaries held by the company are listed below:

| Name of Subsidiaries, Country of Incorporation, Place of Operations and Principal Activities | Cost of the Investment | | Percentage of equity held by Group | |
|--|------------------------|---------|------------------------------------|------|
| | 2014 | 2013 | 2014 | 2013 |
| | RMB'000 | RMB'000 | % | % |
| Shandong Yinguang Technology Co., Ltd. People's Republic of China Production and sale of commercial explosive products (a) | 113,143 | 113,143 | 100 | 100 |
| <u>Held by Shandong Yinguang Technology Co., Ltd.:</u> | | | | |
| Hebei Yinguang Chemical Co., Ltd. People's Republic of China Production and sale of ammonium nitrate (a) | 10,161 | 10,161 | 100 | 100 |

- (a) For the purpose of preparing the Group's financial statements, the financial statements as at reporting year end were audited by Zhongxinhua Certified Public Accountant LLP, a member of the Chinese Institute of Certified Public Accountants and an approved firm by the China Securities Regulatory Commission. The statutory financial statements for compliance with the laws of PRC were audited by Xinlianyi Certified Public Accountants Co., Ltd, Linyi Office.

As is required by Rule 716 of the Listing Manual of The Singapore Exchange Securities Trading Limited the audit committee and the board of directors of the company have satisfied themselves that the appointment of different auditors for its overseas subsidiaries would not compromise the standard and effectiveness of the audit of the group.

17. Inventories

| | Group | |
|---|---------|---------|
| | 2014 | 2013 |
| | RMB'000 | RMB'000 |
| Raw materials | 33,515 | 39,711 |
| Work-in-progress | 80 | 80 |
| Finished goods | 30,279 | 23,289 |
| Balance at end of the year | 63,874 | 63,080 |
| Inventories are stated after allowance. Movements in allowance: | | |
| Balance at beginning of the year | (208) | (311) |
| Write-off during the year | 208 | 311 |
| Charge to profit or loss included in other charges | (328) | (208) |
| Balance at end of the year | (328) | (208) |
| Changes in inventories of finished goods and work in progress | (6,990) | 4,390 |
| Raw materials and consumables used | 207,183 | 262,092 |

There are no inventories pledged as security for liabilities.



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18. Trade and Other Receivables

| | Group | | Company | |
|--|----------|----------|---------|---------|
| | 2014 | 2013 | 2014 | 2013 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| <u>Trade receivables:</u> | | | | |
| Outside parties | 95,125 | 118,144 | – | – |
| Less allowance for impairment | (13,007) | (16,607) | – | – |
| Related party (Note 3) | 3,473 | 5,705 | – | – |
| Sub-total | 85,591 | 107,242 | – | – |
| <u>Other receivables:</u> | | | | |
| Outside parties | 1,144 | 4,412 | – | – |
| Less allowance for impairment | (168) | (168) | – | – |
| Tax recoverable | 3,439 | 4,757 | – | – |
| Subsidiary (Note 3) | – | – | 16,167 | 36,428 |
| Sub-total | 4,415 | 9,001 | 16,167 | 36,428 |
| Total trade and other receivables | 90,006 | 116,243 | 16,167 | 36,428 |
| <u>Movement in the above allowance – trade receivables</u> | | | | |
| Balance at beginning of the year | (16,607) | (15,734) | – | – |
| Credit to profit or loss included in other credits | 171 | 24 | – | – |
| Allowance written-off | 4,799 | 134 | – | – |
| Charge to profit or loss included in other charges | (1,370) | (1,031) | – | – |
| Balance at end of the year | (13,007) | (16,607) | – | – |
| <u>Movement in the above allowance – other receivables</u> | | | | |
| Balance at beginning and end of the year | (168) | (168) | – | – |

19. Cash and Cash Equivalents

| | Group | | Company | |
|---------------------------|---------|---------|---------|---------|
| | 2014 | 2013 | 2014 | 2013 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Not restricted in use | 99,473 | 120,011 | 600 | 487 |
| Interest earning balances | 98,873 | 119,524 | – | – |

The rate of interest for the cash on interest earning balances ranged between 0.35% and 0.39% (2013: 0.35% to 0.39%) per annum.

NOTES TO THE FINANCIAL STATEMENTS

31 MARCH 2014

20. Share Capital

| | Group and Company | | |
|--|-------------------------------|------------------|----------------------------|
| | Number of shares issued | Share capital | Issued share capital |
| | | S\$ | RMB Equivalent |
| Ordinary shares of no par value: | | | |
| Balance at beginning of the year 1 April 2012 and at end of the year 31 March 2013 and 31 March 2014 | 234,000,000 | 23,458,985 | 116,848,607 |

The ordinary shares of no par value carry no right to fixed income and are fully paid and with one vote per share. The company is not subject to any externally imposed capital requirements except the only externally imposed capital requirement is that for the group to maintain its listing on the Singapore Exchange Securities Trading Limited it has to have share capital of at least a free float of at least 10% of the shares. The company met the capital requirement on its initial listing and the rules limiting treasury share purchases mean it will automatically continue to satisfy that requirement, as it did throughout the year. Management receives a report from the registrars frequently on substantial share interests showing the non-free float and it demonstrated continuing compliance with the 10% limit throughout the year.

Capital management:

The objectives when managing capital are: to safeguard the reporting entity's ability to continue as a going concern, so that it can continue to provide returns for owners and benefits for other stakeholders, and to provide an adequate return to owners by pricing the sales commensurately with the level of risk. The management sets the amount of capital to meet its requirements and the risk taken. There were no changes in the approach to capital management during the reporting year. The management manages the capital structure and makes adjustments to it where necessary or possible in the light of changes in conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the management may adjust the amount of dividends paid to owners, return capital to owners, issue new shares, or sell assets to reduce debt. Adjusted capital comprises all components of equity (that is, share capital and reserves).

The group has significant borrowings but the borrowings are less than the cash available. The debt-to-adjusted capital ratio therefore does not provide a meaningful indicator of the risk of borrowings.

21. Other Reserves

| | Group | | Company | |
|--------------------------------------|-----------------|-----------------|-----------------|-----------------|
| | 2014 RMB'000 | 2013 RMB'000 | 2014 RMB'000 | 2013 RMB'000 |
| Foreign currency translation reserve | 230 | 1,392 | (2,527) | 2,271 |
| Capital reserve | 44,000 | 44,000 | - | - |
| Statutory reserve | 37,981 | 35,009 | - | - |
| | <u>82,211</u> | <u>80,401</u> | <u>(2,527)</u> | <u>2,271</u> |

Under the PRC regulations, the subsidiary is required to set up a statutory reserve which represents a non-distributable reserve made at a rate of 10% of net profit after tax. Contribution to this reserve is no longer mandatory when the reserve reaches 50% of the registered share capital. The reserve is to be used in accordance to the circumstances as stipulated in the relevant regulations.

NOTES TO THE FINANCIAL STATEMENTS

31 MARCH 2014

21. Other Reserves (Continued)

In financial year ended 31 March 2013, Shandong Yinguang Technology Co., Ltd. capitalised RMB 13.0 million and RMB 31.0 million from Statutory Reserve and Retained Earnings respectively as its Share Capital. Consequently, these amounts have been transferred from statutory reserve and retained earnings to capital reserve.

The foreign currency translation reserve accumulates all foreign exchange difference arising from the translation of the company's financial statements to RMB.

All reserves classified on the face of the statement of financial position as retained earnings represents past accumulated earnings and are distributable as cash dividends. The other reserves are not available for cash dividends unless realised.

22. Other Financial Liabilities

| | Group | | Company | |
|-----------------------------|---------|---------|---------|---------|
| | 2014 | 2013 | 2014 | 2013 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Finance leases (Note 22A) | – | 7 | – | 7 |
| Bank loans I (Note 22B) | 48,000 | 68,000 | – | – |
| Bank loans II (Note 22C) | 34,000 | 20,000 | – | – |
| Third party loan (Note 22D) | 8,172 | 8,281 | – | – |
| Total | 90,172 | 96,288 | – | 7 |

22A. Finance Leases

| 2013 | Minimum payments | Finance charges | Present value |
|--|------------------|-----------------|---------------|
| | RMB'000 | RMB'000 | RMB'000 |
| Minimum lease payments payable: | | | |
| Due within one year | 7 | – | 7 |
| Total | 7 | – | 7 |
| Net book value of plant and equipment under finance leases | | | 174 |

It is a policy to lease certain of its plant and equipment under finance leases. The average lease term is 7 years. For the finance lease as at 31 March 2013, the average effective borrowing rate is 6.61% per annum. 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 Singapore dollars. The obligations under finance lease are secured by the lessor's charge over the leased assets. During the year, the finance lease was fully repaid.

NOTES TO THE FINANCIAL STATEMENTS

31 MARCH 2014

22. Other Financial Liabilities (Continued)

22B. Bank Loans I

The short-term bank loans are secured on the land and buildings of a subsidiary with net book value of approximately RMB91.5 million (2013: RMB96.2 million).

They bear fixed interest and have maturity dates as follows:

| 2014: | | | 2013: | | |
|----------------|---------------|----------------|----------------|---------------|-------------------|
| Loan principal | Interest rate | Maturity dates | Loan principal | Interest rate | Maturity dates |
| (RMB'000) | (%) | | (RMB'000) | (%) | |
| 12,000 | 6.90 | 27 May 2014 | 10,000 | 6.63 | 24 May 2013 |
| 18,000 | 6.30 | 16 June 2014 | 10,000 | 5.88 | 21 June 2013 |
| 10,000 | 6.30 | 12 June 2014 | 20,000 | 5.88 | 21 June 2013 |
| 8,000 | 6.16 | 22 August 2014 | 8,000 | 6.30 | 16 August 2013 |
| | | | 20,000 | 5.88 | 13 September 2013 |
| <u>48,000</u> | | | <u>68,000</u> | | |

22C. Bank Loans II

The short-term bank loans are secured on the land and buildings of a subsidiary with net book value of RMB15.5 million (2013: NIL) and a corporate guarantee from a related party which a director has substantial interest. They bear fixed interest and have maturity dates as follows:

| 2014: | | | 2013: | | |
|----------------|---------------|----------------|----------------|---------------|----------------|
| Loan principal | Interest rate | Maturity dates | Loan principal | Interest rate | Maturity dates |
| (RMB'000) | (%) | | (RMB'000) | (%) | |
| 20,000 | 7.20 | 6 May 2014 | 20,000 | 7.20 | 18 Nov 2013 |
| 14,000 | 7.28 | 28 April 2014 | | | |
| <u>34,000</u> | | | <u>20,000</u> | | |

22D. Third Party Loan

This loan represents amount due to the previous owner of a subsidiary, Hebei Yinguang Chemical Co., Ltd prior to the acquisition by Shandong Yinguang Chemical Group Co., Ltd., a related party. The full balance is interest-free and have no fixed term of repayment.

NOTES TO THE FINANCIAL STATEMENTS

31 MARCH 2014

23. Trade and Other Payables

| | Group | | Company | |
|---|---------|---------|---------|---------|
| | 2014 | 2013 | 2014 | 2013 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| <u>Trade payables:</u> | | | | |
| Outside parties and accrued liabilities | 56,890 | 51,321 | 3,171 | 4,596 |
| Provision for safety expenses | 5,895 | 6,986 | – | – |
| Bills payable | 18,000 | 44,000 | – | – |
| Related parties (Note 3) | 2,652 | 2,558 | – | – |
| VAT payables | 300 | 1,451 | – | – |
| Subtotal | 83,737 | 106,316 | 3,171 | 4,596 |
| <u>Other payables:</u> | | | | |
| Related parties (Note 3) ^(a) | 1,301 | 2,468 | – | – |
| Payable for land use rights (Note 15A) | 21,547 | 21,547 | – | – |
| Outside parties | 2,213 | 3,490 | 314 | 172 |
| Subtotal | 25,061 | 27,505 | 314 | 172 |
| Total trade and other payables | 108,798 | 133,821 | 3,485 | 4,768 |

^(a) Included in amounts due to related parties is an amount of RMBNIL (2013: RMB2,000,000; 2012: RMB89,253,000) for the purchase of land use rights and property, plant and equipment from a related party in 2012. The amount is unsecured, interest-free and is repayable in 2014.

Movement in the provision for safety expenses

Provision for safety expenses

| | | | | |
|----------------------------------|---------|---------|---|---|
| Balance at beginning of the year | 6,986 | 7,191 | – | – |
| Provision for the year | 4,437 | 6,287 | – | – |
| Utilisation during the year | (5,528) | (6,492) | – | – |
| Balance at end of the year | 5,895 | 6,986 | – | – |

Provision for safety expenses are made in accordance with the regulation of People's Republic of China.

24. Other Liabilities, Current

| | Group | | Company | |
|---------------------------------|---------|---------|---------|---------|
| | 2014 | 2013 | 2014 | 2013 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Advances from customers | 3,720 | 1,949 | – | – |
| Deferred revenue ^(a) | 1,951 | – | – | – |
| | 5,671 | 1,949 | – | – |

(a) The deferred revenue is related to the government grant for certain plant and equipment disclosed in Note 13.

NOTES TO THE FINANCIAL STATEMENTS

31 MARCH 2014

25. Financial Instruments: Information on Financial Risks

25A. Classification of Financial Assets and Liabilities

The following table summarises the carrying amount of financial assets and liabilities recorded at the end of the reporting year by FRS 39 categories:

| | Group | | Company | |
|--|---------|---------|---------|---------|
| | 2014 | 2013 | 2014 | 2013 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| <u>Financial assets:</u> | | | | |
| Cash and cash equivalents | 99,473 | 120,011 | 600 | 487 |
| Loans and receivables | 86,567 | 111,486 | 16,167 | 36,428 |
| At end of the year | 186,040 | 231,497 | 16,767 | 36,915 |
| <u>Financial liabilities:</u> | | | | |
| Other financial liabilities measured at amortised cost | 90,172 | 96,288 | – | 7 |
| Trade and other payables measured at amortised cost | 108,798 | 133,821 | 3,485 | 4,768 |
| At end of the year | 198,970 | 230,109 | 3,485 | 4,775 |

Further quantitative disclosures are included throughout these financial statements.

There are no significant fair value measurements recognised in the statement of financial position.

25B. Financial Risk Management

The main purpose for holding or issuing financial instruments is to raise and manage the finances for the entity's operating, investing and financing activities. There are exposures to the financial risks on the financial instruments such as credit risk, liquidity risk and market risk comprising interest rate, currency risk and price risk exposures. Management has certain practices for the management of financial risks and action to be taken in order to manage the financial risks. However these are not formally documented in written form. The guidelines include the following:

1. Minimise interest rate, currency, credit and market risks for all kinds of transactions.
2. Maximise the use of "natural hedge": favouring as much as possible the natural off-setting of sales and cost and payables and receivables denominated in the same currency and therefore put in place hedging strategies only for the excess balance. The same strategy is pursued with regard to interest rate risk.
3. All financial risk management activities are carried out and monitored by senior management staff.
4. All financial risk management activities are carried out following good market practices.

25C. Fair Values of Financial Instruments

The analyses of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 are disclosed in the relevant notes to the financial statements. These include both the significant financial instruments stated at amortised cost and at fair value in the statement of financial position. The carrying values of current financial instruments approximate their fair values due to the short-term maturity of these instruments and the disclosures of fair value are not made when the carrying amount of current financial instruments is a reasonable approximation of the fair value.



NOTES TO THE FINANCIAL STATEMENTS

31 MARCH 2014

25. Financial Instruments: Information on Financial Risks (Continued)

25D. Credit Risk on Financial Assets

Financial assets that are potentially subject to concentrations of credit risk and failures by counterparties to discharge their obligations in full or in a timely manner consist principally of cash balances with banks, cash equivalents, receivables and certain other financial assets. The maximum exposure to credit risk is: the total of the fair value of the financial assets; the maximum amount the entity could have to pay if the guarantee is called on; and the full amount of any payable commitments at the end of the reporting year. Credit risk on cash balances with banks and any other financial instruments is limited because the counter-parties are entities with acceptable credit ratings. Credit risk on other financial assets is limited because the other parties are entities with acceptable credit ratings. For credit risk on receivables an ongoing credit evaluation is performed on the financial condition of the debtors and a loss from impairment is recognised in profit or loss. The exposure to credit risk with customers is controlled by setting limits on the exposure to individual customers and these are disseminated to the relevant persons concerned and compliance is monitored by management. There is significant concentration of credit risk on receivables, as the exposure is spread over a small number of counter-parties and customers unless otherwise disclosed in the note below.

Note 19 discloses the maturity of the cash and cash equivalents balances.

As part of the process of setting customer credit limits, different credit terms are used. The average credit period generally granted to trade receivable customers is about 90 days (2013: 90 days). But some customers take a longer period to settle the amounts:

- (a) Ageing analysis of the age of trade receivable amounts that are past due as at the end of reporting year but not impaired:

| | Group | |
|--------------------|---------|---------|
| | 2014 | 2013 |
| | RMB'000 | RMB'000 |
| Trade receivables: | | |
| 91 - 180 days | 19,784 | 20,141 |
| 181 days to 1 year | 5,140 | 4,351 |
| Over 1 year | 3,797 | 3,703 |
| Total | 28,721 | 28,195 |

- (b) Ageing analysis as at the end of reporting year of trade receivable amounts that are impaired:

| | Group | |
|--------------------|---------|---------|
| | 2014 | 2013 |
| | RMB'000 | RMB'000 |
| Trade receivables: | | |
| Over 1 year | 13,007 | 16,607 |
| Total | 13,007 | 16,607 |

The allowance which is disclosed in the Note 18 on trade receivables is based on individual accounts totalling RMB13,007,000 (2013: RMB16,607,000) that are determined to be impaired at end of the reporting year. These are not secured.

Other receivables are normally with no fixed terms and therefore there is no maturity.

NOTES TO THE FINANCIAL STATEMENTS

31 MARCH 2014

25. Financial Instruments: Information on Financial Risks (Continued)

25D. Credit Risk on Financial Assets (Continued)

Concentration of trade receivable customers as at the end of reporting year:

| | Group | |
|-----------------|---------|---------|
| | 2014 | 2013 |
| | RMB'000 | RMB'000 |
| Top 1 customer | 11,650 | 14,257 |
| Top 2 customers | 17,128 | 20,674 |
| Top 3 customers | 21,978 | 26,832 |

25E. Liquidity Risk

The following table analyses the non-derivate financial liabilities by remaining contractual maturity (contractual and undiscounted cash flows).

| Group | Less than 1 year |
|---------------------------------------|------------------|
| | RMB'000 |
| Non-derivative financial liabilities: | |
| <u>2014:</u> | |
| Gross borrowings commitments | 91,094 |
| Trade and other payables | 108,798 |
| At end of the year | 199,892 |
| | Less than 1 year |
| | RMB'000 |
| Non-derivative financial liabilities: | |
| <u>2013:</u> | |
| Gross borrowings commitments | 98,433 |
| Gross finance lease obligations | 7 |
| Trade and other payables | 133,821 |
| At end of the year | 232,261 |



NOTES TO THE FINANCIAL STATEMENTS

31 MARCH 2014

25. Financial Instruments: Information on Financial Risks (Continued)

25E. Liquidity Risk (Continued)

| Company | Less than 1 year RMB'000 |
|---------------------------------------|-------------------------------------|
| Non-derivative financial liabilities: | |
| <u>2014:</u> | |
| Gross finance lease obligations | – |
| Trade and other payables | 3,485 |
| At end of the year | 3,485 |
| | Less than 1 year RMB'000 |
| Non-derivative financial liabilities: | |
| <u>2013:</u> | |
| Gross finance lease obligations | 7 |
| Trade and other payables | 4,768 |
| At end of the year | 4,775 |

The above amounts disclosed in the maturity analysis are the contractual undiscounted cash flows and such undiscounted cash flows differ from the amount included in the statement of financial position. When the counterparty has a choice of when an amount is paid, the liability is included on the basis of the earliest date on which it can be required to pay.

The undiscounted amounts on the bank borrowings with fixed and floating interest rates are determined by reference to the conditions existing at the reporting date.

The liquidity risk refers to the difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. It is expected that all the liabilities will be paid at their contractual maturity. The average credit period taken to settle trade payables is about 180 days (2013: 180 days). The other payables are with short-term durations. The classification of the financial assets is shown in the statement of financial position as they may be available to meet liquidity needs and no further analysis is deemed necessary.

NOTES TO THE FINANCIAL STATEMENTS

31 MARCH 2014

25. Financial Instruments: Information on Financial Risks (Continued)

25F. Interest Rate Risk

The interest rate risk exposure is mainly from changes in fixed rates and floating interest rates. The following table analyses the breakdown of the significant financial instruments by type of interest rates:

| | Group | | Company | |
|-------------------------------|---------|---------|---------|---------|
| | 2014 | 2013 | 2014 | 2013 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| <u>Financial assets:</u> | | | | |
| Floating rates | 98,873 | 119,524 | - | - |
| At end of the year | 98,873 | 119,524 | - | - |
| <u>Financial liabilities:</u> | | | | |
| Fixed rates | 82,000 | 88,007 | - | 7 |
| At end of the year | 82,000 | 88,007 | - | 7 |

The floating rate debt obligations are with interest rates that are re-set regularly at one, three or six month intervals. The interest rates are disclosed in the respective notes.

Sensitivity analysis: The effect on profit before tax is not significant.

25G. Foreign Currency Risks

Analysis of amount denominated in non-functional currency:

| Company | China RMB RMB'000 |
|--------------------------|----------------------|
| <u>Financial assets:</u> | |
| <u>2014:</u> | |
| Loans and receivables | 16,167 |
| <u>2013:</u> | |
| Loans and receivables | 36,428 |

There is exposure to foreign currency risk as part of its normal business.

Sensitivity analysis: The effect on profit before tax is not significant.

NOTES TO THE FINANCIAL STATEMENTS

31 MARCH 2014

26. Capital Commitments

Estimated amounts committed at the end of the reporting year for future capital expenditure but not recognised in the financial statements are as follows:

| | Group | |
|--|---------|---------|
| | 2014 | 2013 |
| | RMB'000 | RMB'000 |
| Commitments to purchase of plant and equipment | 8,999 | 17,929 |

27. Operating Lease Payment Commitments

At the end of the reporting year, the total of future minimum lease payment commitments under non-cancellable operating leases are as follows:

| | Group and Company | |
|---|-------------------|---------|
| | 2014 | 2013 |
| | RMB'000 | RMB'000 |
| Not later than one year | 248 | 315 |
| Later than one year and not later than five years | 310 | 26 |
| Rental expenses for the year | 262 | 316 |

Operating lease payments are for rentals payable for certain office and factory properties. The lease rental terms are negotiated for an average term of two to three years and rentals are not subject to an escalation clause.

28. Changes and Adoption of Financial Reporting Standards

For the current reporting year, the following new or revised Singapore Financial Reporting Standards were adopted. The new or revised standards did not require any material modification of the measurement methods or the presentation in the financial statements.

| FRS No. | Title |
|-------------|---|
| FRS 1 | Amendments to FRS 1 Presentation of Items of Other Comprehensive Income |
| FRS 1 | Amendment to FRS 1 Presentation of Financial Statements (Annual Improvements) |
| FRS 16 | Amendment to FRS 16 Property, Plant and Equipment (Annual Improvements) |
| FRS 19 | Employee Benefits (Revised) |
| FRS 32 | Amendment to FRS 32 Financial instruments: Presentation (Annual Improvements) |
| FRS 107 | Amendments to FRS 32 and 107 titled Offsetting Financial Assets and Financial Liabilities |
| FRS 113 | Fair Value Measurements |
| INT FRS 120 | Stripping Costs in the Production Phase of a Surface Mine (*) |

(*) Not relevant to the entity.

NOTES TO THE FINANCIAL STATEMENTS

31 MARCH 2014

29. Future Changes in Financial Reporting 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 result in material adjustments to the financial position, results of operations, or cash flows for the following year.

| FRS No. | Title | Effective date for periods beginning on or after |
|-------------|--|--|
| FRS 27 | Consolidated and Separate Financial Statements (Amendments to) | 1 Jul 2013 |
| FRS 27 | Separate Financial Statements (Revised) | 1 Jan 2014 |
| FRS 28 | Investments in Associates and Joint Ventures (Revised) (*) | 1 Jan 2014 |
| FRS 36 | Amendments to FRS 36: Recoverable Amount Disclosures for Non-Financial Assets (relating to goodwill) (*) | 1 Jan 2014 |
| FRS 32 | Amendments to FRS 39: Novation of Derivatives and Continuation of Hedge Accounting (*) | 1 Jan 2014 |
| FRS 110 | Consolidated Financial Statements | 1 Jan 2014 |
| FRS 111 | Joint Arrangements (*) | 1 Jan 2014 |
| FRS 112 | Disclosure of Interests in Other Entities (*) | 1 Jan 2014 |
| FRS 110 | Amendments to FRS 110, FRS 111 and FRS 112 | 1 Jan 2014 |
| INT FRS 121 | Levies (*) | 1 Jan 2014 |

(*) Not relevant to the entity.

STATISTICS OF SHAREHOLDINGS

AS AT 23 JUNE 2014

| | |
|-----------------------------------|--------------------|
| Issued and fully paid-up capital: | RMB 116,848,607 |
| No. of shares issued: | 234,000,000 |
| No. / % of treasury shares: | Nil |
| Class of shares: | Ordinary shares |
| Voting rights: | One vote per share |

DISTRIBUTION OF SHAREHOLDINGS

| SIZE OF SHAREHOLDINGS | NO. OF SHAREHOLDERS | % | NO. OF SHARES | % |
|-----------------------|---------------------|---------------|--------------------|---------------|
| 1 - 999 | 0 | 0.00 | 0 | 0.00 |
| 1,000 - 10,000 | 487 | 50.42 | 3,218,000 | 1.37 |
| 10,001 - 1,000,000 | 464 | 48.03 | 29,521,000 | 12.62 |
| 1,000,001 AND ABOVE | 15 | 1.55 | 201,261,000 | 86.01 |
| TOTAL | 966 | 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 | 18,334,000 | 7.84 |
| 4 | LOMBARD INC | 8,604,000 | 3.68 |
| 5 | CITIBANK NOMINEES SINGAPORE PTE LTD | 5,131,000 | 2.19 |
| 6 | BAO HONGWEI | 4,788,000 | 2.05 |
| 7 | RAFFLES NOMINEES (PTE) LIMITED | 4,668,000 | 1.99 |
| 8 | TAN GEOK BEE | 4,231,000 | 1.81 |
| 9 | PHILLIP SECURITIES PTE LTD | 2,425,000 | 1.04 |
| 10 | CHUA SEK HOW | 1,407,000 | 0.60 |
| 11 | NGIAN PIN CHRISTINA | 1,370,000 | 0.59 |
| 12 | DBS NOMINEES (PRIVATE) LIMITED | 1,312,000 | 0.56 |
| 13 | HL BANK NOMINEES (SINGAPORE) PTE LTD | 1,200,000 | 0.51 |
| 14 | JOHN TULLIS BLAIR | 1,063,000 | 0.45 |
| 15 | SIMSONS PTE LTD | 1,062,000 | 0.45 |
| 16 | CIMB SECURITIES (SINGAPORE) PTE. LTD. | 998,000 | 0.43 |
| 17 | LEOW KIM HOW | 861,000 | 0.37 |
| 18 | HONG LEONG FINANCE NOMINEES PTE LTD | 800,000 | 0.34 |
| 19 | CHEW BOON CHUN | 711,000 | 0.30 |
| 20 | UOB KAY HIAN PRIVATE LIMITED | 710,000 | 0.30 |
| | TOTAL | 205,341,000 | 87.75 |

STATISTICS OF SHAREHOLDINGS

AS AT 23 JUNE 2014

SUBSTANTIAL SHAREHOLDERS

Substantial shareholders of the Company (as recorded in the Register of Substantial Shareholders) as of 23 June 2014.

| | Direct Interest | No. of Ordinary Shares | | % |
|----------------------------------|-----------------|------------------------|-------------------|-------|
| | | % | Indirect Interest | |
| Fortsmith Investments Limited | 75,700,000 | 32.35 | – | – |
| DNX Australia Pty Limited | 69,966,000 | 29.90 | – | – |
| Fivestar Limited | 18,334,000 | 7.84 | – | – |
| Lombard Inc. | 8,604,000 | 3.68 | – | – |
| Sun Bowen ⁽¹⁾ | – | – | 75,700,000 | 32.35 |
| Dr. Lim Seck Yeow ⁽²⁾ | – | – | 18,334,000 | 7.84 |
| Tan Geok Bee ⁽³⁾ | 4,231,000 | 1.81 | 18,334,000 | 7.84 |
| Bao Hongwei ⁽⁴⁾ | 4,788,000 | 2.05 | 8,604,000 | 3.68 |

Notes:

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

Free Float

As at 23 June 2014, approximately 22.38% 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 2 Bukit Merah Central, Level 1 Drucker/Juran Boardroom, Singapore 159835 on Friday, 25 July 2014 at 9.30 a.m. for the following purposes: -

AS ORDINARY BUSINESS

1. To receive and adopt the Audited Financial Statements of the Company for the financial year ended 31 March 2014 together with the Directors' Report and Auditors' Report thereon. **Resolution 1**
2. To declare a special tax exempt one-tier dividend of S\$0.002 per ordinary share for the financial year ended 31 March 2014. **Resolution 2**
3. To approve the payment of Directors' Fees of S\$336,000 for the financial year ended 31 March 2014 (2013: S\$336,000). **Resolution 3**
4. To re-appoint Dr. Lim Seck Yeow as a Director of the Company to hold office until the next Annual General Meeting pursuant to Section 153(6) of the Companies Act, Cap. 50.
(See Explanatory Note 1) **Resolution 4**
5. To re-elect Mr. Simon Hunter Atkinson who is retiring under Article 117 of the Company's Articles of Association.
(See Explanatory Note 2) **Resolution 5**
6. To re-elect Mr. Wee Phui Gam who is retiring under Article 107 of the Company's Articles of Association.
(See Explanatory Note 3) **Resolution 6**
7. To re-elect Mr. Sun Bowen who is retiring under Article 107 of the Articles of Association.
(See Explanatory Note 4) **Resolution 7**
8. To re-appoint Messrs RSM Chio Lim LLP, Certified Public Accountants, as auditors of the Company and to authorise the Directors to fix their remuneration. **Resolution 8**
9. To transact any other ordinary business which may be properly transacted at an Annual General Meeting.

AS SPECIAL BUSINESS

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

10. AUTHORITY TO ALLOT AND ISSUE SHARES **Resolution 9**

"THAT pursuant to Section 161 of the Companies Act, Cap. 50 (the "Act") and Rule 806 of the Listing Manual ("Listing Manual") of the Singapore Exchange Securities Trading Limited ("SGX-ST"), 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,



NOTICE OF ANNUAL GENERAL MEETING

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 total number of issued shares excluding treasury shares, of which the aggregate number of shares and convertible securities issued other than on a pro rata basis to existing shareholders must be not more than twenty percent (20%) of the total number of issued shares excluding treasury shares, and that such authority shall continue in force until the conclusion of the next Annual General Meeting or the expiration of the period within which the next Annual General Meeting of the Company is required by law to be held, whichever is the earlier, unless the authority is previously revoked or varied at a general meeting. For the purpose of Rule 806(2), the total number of issued shares excluding treasury shares is based on the Company's total number of issued shares excluding treasury shares at the time of passing of this resolution approving the mandate after adjusting for: -

- (a) new shares arising from the conversion or exercise of convertible securities;
- (b) new shares arising from exercising share options or vesting of share awards outstanding or subsisting at the time of the passing of the resolution approving the mandate, provided the options or awards were granted in compliance with Part VIII of Chapter 8; and
- (c) any subsequent bonus issue, consolidation or subdivision of shares.

(See Explanatory Note 5)

11. PROPOSED RENEWAL OF THE SHAREHOLDERS' MANDATE FOR INTERESTED PERSON TRANSACTIONS

Resolution 10

“THAT:-

- (a) approval be and is hereby given, for the purposes of Chapter 9 of the Listing Manual of the SGX-ST, for the Company, its Subsidiaries and Associated Companies or any of them to enter into any of the transactions falling within the types of the Interested Person Transactions, particulars of which are set out in the Appendix to this Notice of Annual General Meeting, with any party who is of the class of Interested Persons described in the Appendix to this Notice of Annual General Meeting, provided that such transactions are in accordance with the review procedures for Interested Person Transactions as set out in the Appendix to this Notice of Annual General Meeting;
- (b) the approval given in sub-paragraph (a) above (the “Mandate”) shall unless revoked or varied by the Company in general meeting continue in force until the next Annual General Meeting of the Company;
- (c) the Audit Committee of the Company be and is hereby authorised to take such action as it deems proper in respect of procedures and/or to modify or implement such procedures as may be necessary to take into consideration any amendments to Chapter 9 of the Listing Manual which may be prescribed by the SGX-ST from time to time; and



NOTICE OF ANNUAL GENERAL MEETING

- (d) the Directors of the Company be and is hereby authorised, jointly or severally, to take such steps and exercise such discretion as the Directors of the Company may in their absolute discretion deem fit, advisable or necessary or in the interest of the Company to give effect to the Mandate and/or this Resolution.”

(See Explanatory Note 6)

BY ORDER OF THE BOARD

TAN MIN-LI
COMPANY SECRETARY
SINGAPORE
10 July 2014

Explanatory Note: -

- (1) Dr. Lim Seck Yeow will, upon re-appointment as Director of the Company, remain as a member of the Audit Committee and will be considered non-independent for the purposes of Rule 704(8) of the Listing Manual of the Singapore Exchange Securities Trading Limited. He will also remain as non-executive Chairman of the Company, a member of the Nominating Committee and Remuneration Committee. There are no relationships (including immediate family relationships) between Dr. Lim Seck Yeow and the other Directors, the Company or shareholder with shareholdings of 10% or more in the voting shares of the Company.
- (2) There are no relationships (including immediate family relationships) between Mr. Simon Hunter Atkinson and the other Directors and the Company. Mr Simon Hunter Atkinson is the representative/employee of a shareholder with shareholdings of 10% or more in the voting shares of the Company.
- (3) Mr. Wee Phui Gam, will upon re-election as Director of the Company, remain as a Chairman of the Audit Committee and Member of the Remuneration and Nominating Committees. He will be considered independent for the purposes of Rule 704(8) of the Listing Manual of the Singapore Exchange Securities Trading Limited. He will also remain as Member of the Audit Committee. There are no relationships (including immediate family relationships) between Mr. Wee Phui Gam and the other Directors, the Company or shareholder with shareholdings of 10% or more in the voting shares of the Company.
- (4) There are no relationships (including immediate family relationships) between Mr. Sun Bowen and the other Directors, the Company or shareholder with shareholdings of 10% or more in the voting shares of the Company. Mr Sun Bowen is the representative/employee of a shareholder with shareholdings of 10% or more in the voting shares of the Company.
- (5) Resolution No. 9 above, 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.
- (6) The ordinary resolution proposed in item 11 above, if passed, will renew, effective until the conclusion of the next Annual General Meeting, the IPT Mandate to enable the Company, its subsidiaries and associated companies which are considered “entities at risk” to enter in the ordinary course of business into certain types of interested person transactions with specific classes of the Company’s interested persons. Particulars of the IPT Mandate are set out in the Appendix to this Notice of Annual General Meeting which is enclosed with the Company’s Annual Report 2013.

Notes: -

- (i) A member entitled to attend and vote at the Meeting is entitled to appoint not more than two proxies 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.
- (ii) A proxy need not be a member of the Company.
- (iii) The instrument appointing a proxy must be deposited at the Company’s registered office at 80 Robinson Road, #02-00, Singapore 068898 at least 48 hours before the time of the Meeting.

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 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 intents 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.

PROXY FORM

I/We _____

of _____

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

| Name | NRIC/Passport No. | Proportion of Shareholdings | |
|---------|-------------------|-----------------------------|---|
| Address | | No. of Shares | % |
| | | | |

and/or (delete as appropriate)

| Name | NRIC/Passport No. | Proportion of Shareholdings | |
|---------|-------------------|-----------------------------|---|
| Address | | No. of Shares | % |
| | | | |

or failing him/her, the Chairman of the Meeting 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 2 Bukit Merah Central, Level 1 Drucker/Juran Boardroom, Singapore 159835 on Friday, 25 July 2014 at 9.30 a.m. and at any adjournment thereof.

I/We direct my/our proxy/proxies to vote for or against the Resolutions to be proposed at the Meeting as hereunder indicated. If no specific direction as to voting is given or in the event of any other matter arising at the Meeting and at any adjournment thereof, the proxy/proxies will vote or abstain from voting at his/her discretion. The authority herein includes the right to demand or to join in demanding a poll and to vote on a poll.

| No. | Ordinary Resolutions | For | Against |
|--------------------------|--|-----|---------|
| Ordinary Business | | | |
| 1. | To adopt the Audited Financial Statements, Directors' Report and Auditors' Report of the Company for the financial year ended 31 March 2014. | | |
| 2. | To declare a special tax exempt one-tier dividend of S\$0.002 per ordinary share for the financial year ended 31 March 2014. | | |
| 3. | To approve the payment of Directors' Fees for the financial year ended 31 March 2014. | | |
| 4. | To re-appoint Dr. Lim Seck Yeow as a Director pursuant to Section 153(6) of the Companies Act, Cap. 50. | | |
| 5. | To re-elect Mr. Simon Hunter Atkinson as a Director under Article 117. | | |
| 6. | To re-elect Mr. Wee Phui Gam as a Director under Article 107. | | |
| 7. | To re-elect Mr. Sun Bowen as a Director under Article 107. | | |
| 8. | To re-appoint RSM Chio Lim LLP as Auditors and authorise Directors to fix their remuneration. | | |
| Special Business | | | |
| 9. | Approval of Authority to allot and issue shares. | | |
| 10. | Proposed renewal of the shareholders' mandate for Interested Person Transactions. | | |

Dated this _____ day of _____ 2014.



Signature(s) of Shareholder(s)
or, Common Seal of Corporate Shareholder

| Number of shares held |
|-----------------------|
| |

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 80 Robinson Road, #02-00, Singapore 068898 at least 48 hours before the time appointed for the Annual General Meeting.
6. A corporation which is a member may authorise by resolution of its directors or other governing body such a person as it thinks fit to act as its representative at the Annual General Meeting, in accordance with Section 179 of the Companies Act, Chapter 50.
7. Please indicate with an "X" in the spaces provided whether you wish your vote(s) to be for or against the Resolutions as set out in the Notice of Annual General Meeting. In the absence of specific directions, the proxy/proxies will vote or abstain as he/they may think fit, as he/they will on any other matter arising at the Annual General Meeting.
8. The Company shall be entitled to reject the instrument appointing a proxy or proxies if it is incomplete, improperly completed or illegible or where the true intentions of the appointor are not ascertainable from the instructions of the appointor specified in the instrument appointing a proxy or proxies.
9. In the case of a member whose shares are entered against his name in the Depository Register, the Company may reject any instrument appointing a proxy or proxies lodged if the member, being the appointor, is not shown to have shares entered against his name in the Depository Register as at 48 hours before the time appointed for holding the Annual General Meeting, as certified by The Central Depository (Pte) Limited to the Company.



FABCHEM CHINA LIMITED

2 Bukit Merah Central

#12-03

Singapore 159835

Tel: (65) 6265 5918 Fax: (65) 6268 2447

www.fabchemchina.com