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## CORPORATE INFORMATION

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<b>BOARD OF DIRECTORS</b>	:	Dr Lim Seck Yeow ( <i>Non-executive Chairman</i> ) Sun Bowen ( <i>Managing Director</i> ) Bao Hongwei ( <i>Executive Director</i> ) Ong Tai Tiong Desmond ( <i>Independent Director</i> ) Lim Hui Min John ( <i>Independent Director</i> )
<b>COMPANY SECRETARY</b>	:	Tan Min-Li, LLB (Hons), LLM
<b>REGISTERED OFFICE</b>	:	50 Raffles Place #29-00 Singapore Land Tower Singapore 048623
<b>COMPANY REGISTRATION NUMBER</b>	:	200413128G
<b>REGISTRAR AND SHARE TRANSFER OFFICE</b>	:	Lim Associates (Pte) Ltd 10 Collyer Quay #19-08 Ocean Building Singapore 049315
<b>MANAGER, UNDERWRITER, PLACEMENT AGENT AND RECEIVING BANK</b>	:	HL Bank 20 Collyer Quay #01-02 Tung Centre Singapore 049319
<b>INDEPENDENT AUDITORS</b>	:	RSM Chio Lim Certified Public Accountants, Singapore (Member of RSM International) 18 Cross Street #08-01 Marsh & McLennan Centre Singapore 048423  Partner-in-charge: Ng Thiam Soon, FCPA
<b>SOLICITORS TO THE INVITATION</b>	:	Colin Ng & Partners 50 Raffles Place #29-00 Singapore Land Tower Singapore 048623
<b>LEGAL ADVISORS TO THE COMPANY ON PRC LAWS</b>	:	Pu Dong Law Office 6/F Tomson Financial Building 710 Dong Fang Road Shanghai 200122, PRC
<b>PRINCIPAL BANKERS</b>	:	Industrial and Commercial Bank of China (Fei County Sub-branch) 中国工商银行费县支行 Feicheng Town, Minzhu Road, East Section, Fei County, Shandong 273400, PRC

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## DEFINITIONS

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For the purpose of this Prospectus, the accompanying Application Forms and, in relation to the Electronic Applications, the instructions appearing on the screens of the ATMs or the Internet Banking websites of the relevant Participating Banks, unless the context otherwise requires, the following definitions apply where the context so admits:-

### **Companies in the Group**

- “Company” or “Fabchem China”* : Fabchem China Limited
- “Group” or “Pro forma Group”* : Our Company and its subsidiary, following the completion of the Restructuring Exercise, treated for the purposes of this Prospectus as if it had been in place since 1 April 2002
- “Yinguang Technology” or “Subsidiary”* : Shandong Yinguang Technology Co., Ltd (山东银光科技有限公司)

### **Other Corporations and Entities**

- “Aoxin”* : Beijing Aoxin Chemical Technology Development Co., Ltd (北京奥信化工科技发展有限公司)
- “Authority”* : The Monetary Authority of Singapore
- “Beston”* : Beston Chemical Corporation
- “CDP”* : The Central Depository (Pte) Limited
- “CPF”* : The Central Provident Fund
- “CSRB”* : China’s State Reserves Bureau
- “Commission”* : Commission of Science, Technology and Industry for National Defense (国防科学技术工业委员会民爆器材监督管理局), the government body that regulates the civil explosives industry in the PRC
- “ISO”* : International Organisation for Standardisation, a world-wide federation of national standards bodies
- “Orica”* : Orica Limited
- “SCCS”* : Securities Clearing & Computer Services (Pte) Ltd
- “SGX-ST”* : Singapore Exchange Securities Trading Limited
- “UTEC”* : Universal Tech Corporation R&D Laboratory
- “Yinguang Chemical Group”* : Shandong Yinguang Chemical Group Co., Ltd (山东银光化工集团有限公司)
- “Yinguang Chemical”* : Shandong Yinguang Chemical Industry Co., Ltd (山东银光化工股份有限公司)
- “Yinsheng Investments”* : Shandong Yinsheng Investments Co., Ltd (山东银升投资有限公司), a PRC company established by Sun Qiang and others to act as the holding company of Yinguang Chemical

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## DEFINITIONS

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### **General**

- “Act”* : The Companies Act (Chapter 50) of Singapore
- “Application Forms”* : The official printed application forms to be used for the purpose of the Invitation and which form part of this Prospectus
- “Application List”* : The list of applications for subscription for the New Shares
- “associate(s)”* : (a) in relation to an entity, means:-
- (i) in a case where the entity is a substantial shareholder, controlling shareholder, substantial interest-holder or controlling interest-holder, its related corporation, related entity, associated company or associated entity; or
  - (ii) in any other case:-
    - (A) a director or an equivalent person;
    - (B) where the entity is a corporation, a controlling shareholder of the entity;
    - (C) where the entity is not a corporation, a controlling interest-holder of the entity;
    - (D) a subsidiary, a subsidiary entity, an associated company or an associated entity; or
    - (E) a subsidiary, a subsidiary entity, an associated company, or an associated entity, of the controlling shareholder or controlling interest-holder, as the case may be,of the entity; and
- (b) in relation to an individual, means:-
- (i) his immediate family;
  - (ii) a trustee of any trust of which the individual or any member of the individual’s immediate family is:-
    - (A) a beneficiary; or
    - (B) where the trust is a discretionary trust, a discretionary object,when the trustee acts in that capacity; or
  - (iii) any corporation in which he and his immediate family (whether directly or indirectly) have interests in voting shares of an aggregate of not less than 30% of the total votes attached to all voting shares

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## DEFINITIONS

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The terms “associated company”, “associated entity”, “controlling interest-holder”, “controlling shareholder”, “related corporation”, “related entity”, “subsidiary”, “subsidiary entity” and “substantial interest-holder” shall have the same meanings ascribed to them, respectively, in the Securities and Futures (Offers of Investments) (Shares and Debentures) Regulations 2005.

“ATM”	:	Automated teller machine of a Participating Bank
“ATM Application”	:	An application for Offer Shares made through an ATM in accordance with the terms and conditions of this Prospectus
“Audit Committee”	:	The audit committee of our Company
“Board”	:	The board of Directors of our Company
“Controlling Shareholder”	:	A person who:-  (a) holds directly or indirectly 15% or more of the nominal amount of all voting shares in a company. The SGX-ST may determine that a person who satisfies this definition is not a controlling shareholder; or  (b) in fact exercises control over a company
“Directors”	:	The directors of our Company as at the date of this Prospectus, unless otherwise stated
“Electronic Applications”	:	Applications for the Offer Shares made through an ATM or the Internet Banking web-sites of the relevant Participating Banks in accordance with the terms and conditions of this Prospectus
“EPS”	:	Earnings per Share
“Executive Directors”	:	Our Directors as at the date of this Prospectus who perform an executive function, whose names and details are set out in the section entitled “Directors, Management and Staff” in this Prospectus, unless otherwise stated
“Executive Officers”	:	Our executive officers as at the date of this Prospectus, whose names and details are set out in the section entitled “Directors, Management and Staff” in this Prospectus, unless otherwise stated
“Hong Kong”	:	The Hong Kong Special Administrative Region of the PRC
“FY”	:	Financial year ended or, as the case may be, ending 31 March
“HL Bank”, “Manager”, “Placement Agent”, “Receiving Bank” or “Underwriter”	:	HL Bank (a limited liability company incorporated in Malaysia)
“HY2005” and “HY2006”	:	Six months ended 30 September 2004 and 2005, respectively
“Independent Directors”	:	The independent Directors of our Company as at the date of this Prospectus

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## DEFINITIONS

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<i>“Invitation”</i>	:	The invitation by our Company to the public to subscribe for the New Shares at the Issue Price, in accordance with the terms and conditions of this Prospectus
<i>“Issue Price”</i>	:	\$0.32 for each New Share
<i>“Latest Practicable Date”</i>	:	21 February 2006, being the latest practicable date prior to the lodgment of this Prospectus
<i>“Listing Manual”</i>	:	Listing Manual of the SGX-ST
<i>“Loan Capitalisation”</i>	:	Capitalisation of loans from our non-executive Chairman Dr Lim Seck Yeow and our Controlling Shareholder Tan Geok Bee, as disclosed in the section entitled “Restructuring Exercise” in this Prospectus
<i>“Market Day”</i>	:	A day on which the SGX-ST is open for trading in securities
<i>“NAV”</i>	:	Net asset value
<i>“New Shares”</i>	:	The 59,000,000 new Shares for which we invite applicants to subscribe for pursuant to the Invitation, subject to and on the terms and conditions of this Prospectus
<i>“Nominating Committee”</i>	:	The nominating committee of our Company
<i>“NTA”</i>	:	Net tangible assets
<i>“Offer”</i>	:	The invitation by our Company to the public for subscription of the Offer Shares at the Issue Price, subject to and on the terms and conditions of this Prospectus
<i>“Offer Shares”</i>	:	The 1,500,000 New Shares which are the subject of the Offer
<i>“Participating Banks”</i>	:	DBS Bank Ltd (including POSB) (“DBS”), Oversea-Chinese Banking Corporation Limited (“OCBC”) and United Overseas Bank Limited (and its subsidiary, Far Eastern Bank Limited) (the “UOB Group”)
<i>“PER”</i>	:	Price earnings ratio
<i>“Placement”</i>	:	The placement of the Placement Shares by the Placement Agent on behalf of our Company at the Issue Price, subject to and on the terms and conditions of this Prospectus
<i>“Placement Shares”</i>	:	The 57,500,000 New Shares which are the subject of the Placement
<i>“PRC”</i>	:	The People’s Republic of China
<i>“Prospectus”</i>	:	This Prospectus dated 5 April 2006 issued by our Company in respect of the Invitation
<i>“Remuneration Committee”</i>	:	The remuneration committee of our Company
<i>“Reserved Shares”</i>	:	The 200,000 Placement Shares reserved for our Independent Directors and employees



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## DEFINITIONS

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<i>“Restructuring Exercise”</i>	:	The restructuring exercise undertaken by our Group as described in the section entitled “Restructuring Exercise” in this Prospectus
<i>“Securities Account”</i>	:	Securities account maintained by a depositor with CDP
<i>“Securities and Futures Act”</i>	:	Securities and Futures Act (Chapter 289) of Singapore
<i>“Share(s)”</i>	:	Ordinary share(s) in the capital of our Company
<i>“Shareholder(s)”</i>	:	Registered holder(s) of our Shares, except where the registered holder is CDP, the term “Shareholders” shall, in relation to such shares mean the Depositors whose Securities Accounts are credited with Shares
<i>“Substantial Shareholder”</i>	:	A person who directly or indirectly owns 5% or more of the issued share capital of our Company
<i>“United States”, “US” or “USA”</i>	:	The United States of America
<i>“WOFE”</i>	:	Wholly-owned foreign enterprise
<b>Currencies, Units and Others</b>		
<i>“AUD”</i>	:	Australian dollars
<i>“\$”, “SGD” or “S\$” and “cents”</i>	:	Singapore dollars and cents, respectively
<i>“RMB” and “RMB cents”</i>	:	PRC Renminbi dollars and cents, respectively
<i>“USD” or “US\$”</i>	:	United States dollars
<i>“m/s”</i>	:	Metres per second
<i>“sq m”</i>	:	Square metres
<i>“%” or “per cent.”</i>	:	Per centum or percentage
<i>“°C”</i>	:	Degree celsius

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

References in this Prospectus to the “Group”, “we”, “our” and “us” refer to our Company, our Group or any member of our Group as the context requires.

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

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

Names with Chinese characters have been translated into English. Such translations are provided solely for convenience of Singapore-based investors and should not be construed as representations that the English names actually represent the Chinese characters.

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## DEFINITIONS

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Any reference in this Prospectus and the Application Forms to any statute or enactment is a reference to that statute or enactment as for the time being amended or re-enacted. Any word defined under the Securities and Futures Act, the Act or the Listing Manual or any statutory modification thereof and used in this Prospectus and the Application Forms shall, where applicable, have the meaning assigned to it under the Securities and Futures Act, the Act or the Listing Manual or any modification thereof, as the case may be, unless otherwise provided.

Any reference in this Prospectus and the Application Forms to Shares being allotted to an applicant includes allotment to CDP for the account of that applicant.

A reference to a time of day in this Prospectus, the Application Forms and the Electronic Applications shall be a reference to Singapore time, unless otherwise stated.

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## GLOSSARY OF TECHNICAL TERMS

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The glossary contains explanation of certain terms used in this Prospectus in connection with our Group and our business. The terms and their assigned meanings may not correspond to industry standard or common meanings, as the case may be, or usage of these terms.

- “Cyclotrimethylene Trinitramine” or “RDX” : An explosive material widely used by the military. It is usually used in mixtures with other explosives. It is stable in storage and is considered the most powerful of the military high explosives.
- “delay time” : The time between the initiation and the detonation.
- “detonation” : A sequence of events which cascade from relatively low levels of energy to cause a chain reaction to initiate the final explosive material. It is also known as an initiation sequence.
- “detonation velocity” : The rate at which the detonation wave travels through the explosive; the speed at which the chemical reaction occurs or the rate of reaction.
- “initiation” : The action to start a detonation.
- “none!” : Non-electric.
- “Pentaerythritol Tetranitrate” or “PETN” : One of the strongest known high explosives. It is primarily used in boosters and as the explosive core of detonating cords.
- “Trinitrotoluene” or “TNT” : An explosive chemical and a part of many explosive mixtures.

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## EXCHANGE RATES

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The table below sets forth the highest and lowest exchange rates between RMB and SGD for each month for the past six months prior to the Latest Practicable Date. The table indicates how many SGD it would take to buy one RMB.

	<b>S\$/RMB</b>	
	Highest	Lowest
August 2005	0.2080	0.2031
September 2005	0.2093	0.2067
October 2005	0.2096	0.2078
November 2005	0.2111	0.2092
December 2005	0.2093	0.2059
January 2006	0.2058	0.2009

The following table sets forth, for the financial periods indicated, the average and closing exchange rates between RMB and SGD. The average exchange rates are calculated using the average of the closing exchange rates on the last day of each month during each financial period.

	<b>S\$/RMB</b>	
	Average	Closing
FY2003	0.2141	0.2130
FY2004	0.2085	0.2030
FY2005	0.2033	0.2000
HY2005	0.2065	0.2055
HY2006	0.2028	0.2110

The monthly and yearly exchange rates as outlined above are presented solely for information. The exchange rates should not be construed as representations that RMB amounts actually represent such SGD amounts or could have been or could be converted into Singapore dollars at the rate indicated or at any other rate or at all.

Where applicable, the exchange rates in these tables are used for our Company's financial information disclosed elsewhere in this Prospectus. In certain parts of this Prospectus, we have converted RMB amounts into SGD amounts for the convenience of the potential investors of our Company, as appropriate.

As at the Latest Practicable Date, the exchange rate between SGD and RMB is S\$0.2026 to RMB 1.

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## DETAILS OF THE INVITATION

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### LISTING ON THE SGX-ST

We have applied to the SGX-ST for permission to deal in, and for quotation of, all our Shares already issued and the New Shares on the SGX-ST. Such permission will be granted when our Company has been admitted to the Official List of the SGX-ST. Our acceptance of your applications for our Shares will be conditional upon permission being granted to deal in, and for quotation of, all our existing issued Shares and the New Shares on the SGX-ST. Monies paid in respect of any application accepted will, subject to applicable laws, be returned to you at your own risk, without interest or any share of revenue or other benefit arising therefrom, if the said permission is not granted and you will not have any claim against us or the Manager.

The SGX-ST assumes no responsibility for the correctness of any of the statements made, opinions expressed or reports contained in this Prospectus. Admission to the Official List of the SGX-ST is not to be taken as an indication of the merits of the Invitation, our Company, our Subsidiary, our Shares or the New Shares.

A copy of this Prospectus has been lodged with and registered by the Authority. The Authority assumes no responsibility for the contents of this Prospectus. Registration of this Prospectus by the Authority does not imply that the Securities and Futures Act, or any other legal or regulatory requirements, have been complied with. The Authority has not, in any way, considered the merits of our Shares or the New Shares, as the case may be, being offered, for investment.

No Shares shall be allocated or allotted on the basis of this Prospectus later than six months after the date of registration of this Prospectus by the Authority.

Neither the delivery of this Prospectus and the Application Forms nor the Invitation shall, under any circumstances, constitute a continuing representation or create any suggestion or implication that there has been no change in the affairs of our Company or our Group or in any statements of fact or information contained in this Prospectus since the date of this Prospectus.

Where such changes occur, our Company may make an announcement of the same to the SGX-ST and, if required under the Securities and Futures Act, a supplementary or replacement prospectus will be issued and made available to the public after a copy thereof has been lodged with the Monetary Authority of Singapore. All applicants should take note of any such announcement and, upon release of such an announcement, shall be deemed to have notice of such changes. Save as expressly stated in this Prospectus, nothing herein is, or may be relied upon as, a promise or representation as to the future performance or policies of our Company or our Subsidiary.

Where prior to the lodgment of the supplementary or replacement prospectus, applications have been made under this Prospectus to subscribe for the New Shares and:-

- (a) where the New Shares have not been issued to the applicants, our Company shall either:-
  - (i) within seven days from the date of lodgment of the supplementary or replacement prospectus, give the applicants the supplementary or replacement prospectus, as the case may be, and provide the applicants with an option to withdraw their applications; or
  - (ii) treat the applications as withdrawn and cancelled, in which case the applications shall be deemed to have been withdrawn and cancelled, and our Company shall, within seven days from the date of lodgment of the supplementary or replacement prospectus, pay to the applicants all monies the applicants have paid on account of their applications for our New Shares, without interest or any share of revenue or other benefit arising therefrom; or

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## DETAILS OF THE INVITATION

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- (b) where the New Shares have been issued to the applicants, our Company shall either:-
- (i) within seven days from the date of lodgment of the supplementary or replacement prospectus, give the applicants the supplementary or replacement prospectus, as the case may be, and provide the applicants with an option to return to our Company the New Shares, which they do not wish to retain title in; or
  - (ii) treat the issue of our New Shares as void, in which case the issue shall be deemed void and our Company shall, within seven days from the date of lodgment of the supplementary or replacement prospectus, pay to the applicants all monies paid by them for our New Shares, without interest or any share of revenue or other benefit arising therefrom.

An applicant who wishes to exercise his option under paragraph (a)(i) to withdraw his application shall, within 14 days from the date of lodgment of the supplementary or replacement prospectus, notify our Company of this, whereupon our Company shall, within seven days from the receipt of such notification, pay to him all monies paid by him on account of his application for those New Shares, without interest or any share of revenue or other benefit arising therefrom.

An applicant who wishes to exercise his option under paragraph (b)(i) to return our Shares issued to him shall, within 14 days from the date of lodgment of the supplementary or replacement prospectus, notify our Company of this and return all documents, if any, purporting to be evidence of title to those New Shares, to our Company, whereupon our Company shall, within seven days from the receipt of such notification and documents, if any, pay to him all monies paid by him for those New Shares and the issue of those New Shares shall be deemed to be void without interest, any share of revenue or other benefit arising therefrom.

Under the Securities and Futures Act, the Authority may, in certain circumstances issue a stop order pursuant to Section 242 of the Securities and Futures Act ("Stop Order") to our Company, directing that no or no further Shares to which this Prospectus relates, be allotted, issued or sold. Such circumstances will include a situation where this Prospectus (a) contains a statement or matter, which in the opinion of the Authority is false or misleading, (b) omits any information that should be included in accordance with the Securities and Futures Act or (c) does not, in the opinion of the Authority, comply with the requirements of the Securities and Futures Act.

In the event that the Authority issues a Stop Order and applications to subscribe for the New Shares have been made prior to the Stop Order, then:-

- (a) in the case where the New Shares have not been issued to the applicants, the applications for the New Shares pursuant to the Invitation shall be deemed to have been withdrawn and cancelled and our Company shall, within 14 days from the date of the Stop Order, pay to the applicants all monies the applicants have paid on account of their applications for the New Shares without interest or any share of revenue or other benefits arising therefrom and at the applicants' risk; or
- (b) in the case where the New Shares have been issued to the applicants, the issue of the New Shares pursuant to the Invitation shall be deemed void and our Company shall, within 14 days from the date of the Stop Order, pay to the applicants all monies the applicants have paid for the New Shares, without interest or any share of revenue or other benefits arising therefrom and at the applicants' risk.

This Prospectus has been seen and approved by our Directors and they individually and collectively accept full responsibility for the accuracy of the information given in this Prospectus and confirm, having made all reasonable enquiries that to the best of their knowledge and belief, the facts stated in this Prospectus are true, fair and accurate and not misleading, that all expressions of opinion, intention and expectation contained herein are honestly held and made after due and careful consideration, and there are no other material facts the omission of which would make any statement in this Prospectus misleading and that this Prospectus constitutes full and true disclosure of all material facts about the Invitation, our Company, our Subsidiary, our Shares or the New Shares.

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## DETAILS OF THE INVITATION

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The New Shares are offered for subscription solely on the basis of the information contained and the representations made in this Prospectus.

Neither our Company, the Manager, the Underwriter, the Placement Agent nor any other parties involved in the Invitation is making any representation to any person regarding the legality of an investment in our Shares by such person under any investment or other laws or regulations. No information in this Prospectus should be considered as being business, legal or tax advice. Each prospective investor should consult his own legal, financial, tax or other professional adviser regarding an investment in our Shares.

No person is authorised to give any information or to make any representation not contained in this Prospectus in connection with the Invitation and, if given or made, such information or representation must not be relied upon as having been authorised by our Company or the Manager, the Underwriter and the Placement Agent.

Save as expressly stated in this Prospectus, nothing herein is, or may be relied upon as, a promise or representation as to our future performance or policies. This Prospectus has been prepared solely for the purpose of the Invitation and may not be relied upon by any persons other than the applicants in connection with their application for the New Shares or for any other purpose. This Prospectus does not constitute an offer, solicitation or invitation to subscribe for the New Shares in any jurisdiction in which such offer, solicitation or invitation is unlawful or is not authorised nor does it constitute an offer, solicitation or invitation to any person to whom it is unlawful to make such offer, solicitation or invitation.

Copies of this Prospectus and the Application Forms may be obtained on request, subject to availability, during office hours from:-

**HL Bank  
20 Collyer Quay  
#01-02 Tung Centre  
Singapore 049319**

and from members of the Association of Banks in Singapore, members of the SGX-ST and merchant banks in Singapore. A copy of this Prospectus is also available on the SGX-ST's website at <http://www.sgx.com>.

**The Application List will open at 10 a.m. on 12 April 2006 and will remain open until 12 noon on the same day or for such further period or periods as our Directors may, in consultation with the Manager, in their absolute discretion decide, subject to any limitation under all applicable laws. Where a supplementary or replacement prospectus has been lodged with the Authority, the Application List shall be kept open for at least 14 days after the lodgment of the supplementary or replacement prospectus.**

**Details for the procedure for application for the New Shares are set out in Appendix 1 in this Prospectus.**

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## DETAILS OF THE INVITATION

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### INDICATIVE TIMETABLE FOR LISTING

In accordance with the SGX-ST's News Release of 28 May 1993 on the trading of initial public offering shares on a "when issued" basis, an indicative timetable is set out below for the reference of applicants:-

<b>Indicative Time and Date</b>	<b>Event</b>
12 April 2006, 12.00 noon	Close of Application List
13 April 2006	Balloting of applications, if necessary (in the event of over-subscription for the Offer Shares)
17 April 2006, 9.00 a.m.	Commence trading on a "when issued" basis
24 April 2006	Last day of trading on a "when issued" basis
25 April 2006, 9.00 a.m.	Commence trading on a "ready" basis
27 April 2006	Settlement date for all trades done on a "when issued" basis and for all trades done on a "ready" basis on 25 April 2006

The above timetable is only indicative as it assumes that the closing of the Application List takes place on 12 April 2006, the date of admission of the Company to the Official List of SGX-ST will be 17 April 2006, the SGX-ST's shareholding spread requirement will be complied with and the New Shares will be issued and fully paid prior to 17 April 2006. The actual date on which the Shares will commence trading on a "when issued" basis will be announced when it is confirmed by the SGX-ST.

**The above timetable and procedure may be subject to such modifications as the SGX-ST may in its discretion decide, including the decision to permit trading on a "when issued" basis and the commencement date of such trading. All persons trading in the Shares on a "when issued" basis, do so at their own risk. In particular, persons trading in the Shares before their Securities Accounts with CDP are credited with the relevant number of Shares do so at the risk of selling Shares which neither they nor their nominees, if applicable, have been allotted or are otherwise beneficially entitled to. Such persons are exposed to the risk of having to cover their net sell positions earlier if "when issued" trading ends sooner than the indicative date mentioned above. Persons who have net sell positions traded on a "when issued" basis should close their positions on or before the first day of "ready" basis trading.**

In the event of any changes in the closure of the Application List or the time period during which the Invitation is open, we will publicly announce the same:-

- (a) through an SGXNET announcement to be posted on the Internet at the SGX-ST's website at <http://www.sgx.com>; and
- (b) in a major Singapore English newspaper such as The Straits Times or The Business Times.

We will provide details of the results of the Invitation through the channels described in (a) and (b) above.

Investors should consult the SGX-ST announcement on the "ready" trading date on the Internet (at the SGX-ST's website at <http://www.sgx.com>) or the newspapers or check with their brokers on the date on which trading on a "ready" basis will commence.



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## CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

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All statements contained in this Prospectus, statements made in the press releases and oral statements that may be made by our Company or our officers, Directors or employees acting on our behalf, that are not statements of historical fact, constitute “forward-looking statements”. Some of these statements can be identified by words that have a bias towards, or are, forward-looking such as “anticipate”, “believe”, “could”, “estimate”, “expect”, “forecast”, “if”, “intend”, “may”, “plan”, “possible”, “probable”, “project”, “should”, “will” and “would” or similar words. However, these words are not the exclusive means of identifying forward looking statements. All statements regarding our Group’s expected financial position, business strategy, plans and prospects and future prospects of our Group’s industry are forward-looking statements. These forward-looking statements, including statements as to our Group’s revenue and profitability, prospects, future plans and other matters discussed in this Prospectus regarding matters that are not historical fact, are only predictions. These forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our Group’s actual future results, performance or achievements to be materially different from any future results, performance or achievements expected, expressed or implied by such forward-looking statements. These risk factors and uncertainties are discussed in more detail in this Prospectus, in particular, but not limited to, discussions under the section entitled “Risk Factors”.

Given the risks and uncertainties that may cause our Group’s future results, performance or achievements to be materially different from that expected, expressed or implied by the forward-looking statements in this Prospectus, undue reliance must not be placed on these statements. Neither our Company, the Manager, the Placement Agent, the Underwriter nor any other person represents or warrants that our Group’s actual future results, performance or achievements will be as discussed in those statements.

Our actual future results may differ materially from those anticipated in these forward-looking statements as a result of the risks faced by us. We, the Manager, the Underwriter and the Placement Agent disclaim any responsibility to update any of those forward-looking statements or publicly announce any revisions to those forward-looking statements to reflect future developments, events or circumstances. We are subject to the provisions of the Securities and Futures Act and the Listing Manual of the SGX-ST regarding corporate disclosure. In particular, pursuant to Section 241 of the Securities and Futures Act, if after this Prospectus is registered but before the close of the Invitation, the Company becomes aware of: (a) a false or misleading statement or matter in this Prospectus; (b) an omission from the Prospectus of any information that should have been included in it under Section 243 of the Securities and Futures Act; or (c) a new circumstance that has arisen since the Prospectus was lodged with the Authority and would have been required by Section 243 of the Securities and Futures Act to be included in this Prospectus, if it has arisen before this Prospectus was lodged and that is materially adverse from the point of view of an investor, the Company may lodge a supplementary or replacement prospectus with the Authority.

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## SELLING RESTRICTIONS

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### **Selling Restrictions in Singapore**

This Prospectus does not constitute an offer, solicitation or invitation to subscribe for and/or purchase our Shares in any jurisdiction in which such offer, solicitation or invitation is unlawful or is not authorised or to any person to whom it is unlawful to make such offer, solicitation or invitation. No action has been or will be taken under the requirements of the legislation or regulations of, or of the legal or regulatory authorities of, any jurisdiction, except for the lodgment and/or registration of this Prospectus in Singapore in order to permit a public offering of our Shares and the public distribution of this Prospectus in Singapore. The distribution of this Prospectus and the offering of our Shares in certain jurisdictions may be restricted by the relevant laws in such jurisdictions. Persons who may come into possession of this Prospectus are required by us, the Manager, the Underwriter and the Placement Agent to inform themselves about, and to observe and comply with, any such restrictions at their own expense and without holding us, the Manager, the Underwriter and the Placement Agent liable.

### **Selling Restrictions in Hong Kong**

This Prospectus has not been and will not be registered with the Registrar of Companies in Hong Kong and accordingly, except as mentioned below, may not be issued, circulated or distributed in Hong Kong.

A copy of this Prospectus may, however, be distributed by the Placement Agent or its designated sub-placement agents to “professional investors” as defined in the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the “Ordinance”) and any rules made thereunder.

An Application for the Placement Shares is not invited from any persons in Hong Kong other than a person to whom a copy of this Prospectus has been distributed by the Placement Agent or its designated sub-placement agents, and if made, will not be accepted unless the applicant satisfies the Placement Agent or its designated sub-placement agents that he is a professional investor within the meaning of the Ordinance and any rules made thereunder.

No person to whom a copy of this Prospectus is issued may issue, circulate or distribute this Prospectus in Hong Kong or make or give a copy of this Prospectus to any other person.

The Placement Agent has agreed with our Company that it (and each of its designated sub-placement agents, if any): (a) has not offered or sold, and will not offer or sell in Hong Kong, by means of any document, any Placement Shares other than to “professional investors” as defined in the Ordinance and any rules made thereunder; and (b) it has not issued and does not have in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Placement Shares, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong other than with respect to Placement Shares which are or are intended to be disposed of only to “professionals investors” as defined in the Ordinance and any rules made thereunder.

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## PROSPECTUS SUMMARY

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*This summary highlights selected information contained elsewhere in this Prospectus. Since this summary does not contain all the information that you should consider before investing in our Shares, we urge you to read the entire Prospectus carefully before making an investment decision. This Prospectus contains forward-looking statements, which involve risks and uncertainties. Our results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including, but not limited to, those set forth under "Risk Factors" and elsewhere in this Prospectus.*

### OVERVIEW OF THE GROUP'S ACTIVITIES

#### Business

We are principally engaged in the production and sales of explosives, comprising explosive devices, initiators and detonators, under both our own brand name and those of third parties. Our products are sold for commercial use. Our products are mainly used in the mining, energy exploration and infrastructure construction industries such as coal mining, hydroelectric construction, oil exploration, road and railway construction and large construction projects such as the Three Gorges Dam.

Our PRC customers are located in various major provinces in the PRC such as Henan, Shanxi, Zhejiang and in major cities such as Beijing and Shanghai and they include mining companies, construction companies, transport companies and local distributors. Our products are also exported directly, via export agents approved by the PRC government, to more than 10 countries such as the USA, Australia and South Africa.

In addition to supplying our customers with our products, we also provide after-sales services such as providing technical assistance and assistance in detonating activities to our customers. These services are provided as part of the supply of our products to our customers.

#### Products

Our products are categorised mainly as follows:-

- (a) Explosive devices such as boosters (起爆具) and tube charges (爆裂管);
- (b) Industrial fuse and initiating explosive devices such as detonating cords (导爆索) and nonel tubes (导爆管);
- (c) Industrial detonators such as nonel detonators (导爆管雷管) and piston nonel detonators (活塞式导爆管雷管).

#### Competitive Strengths

We believe that the following are our competitive strengths which allow us to compete effectively with our competitors:-

- (a) Our products meet international standards;
- (b) We have an established reputation and track record;
- (c) We adopt advanced production processes and techniques that reduce our costs of production and result in safer production processes;
- (d) We provide a wide and integrated range of products used in commercial detonations; and
- (e) The barriers to entry to the explosives industry are high.

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## PROSPECTUS SUMMARY

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### OUR FINANCIAL PERFORMANCE

The following tables present a summary of the pro forma consolidated financial information of our Group and should be read in conjunction with the sections entitled “Management’s Discussion and Analysis of Results of Operations” and the “Independent Auditors’ Report on the Unaudited Pro forma Financial Information of Fabchem China Limited” in this Prospectus.

#### Selected items from the Operating Results of our Group

(RMB'000)	← Unaudited Pro forma →				Unaudited Consolidated HY2006
	FY2003	FY2004	FY2005	HY2005	
Revenue	75,195	101,635	149,390	62,783	51,180
Gross profit	29,056	31,249	58,421	23,332	23,409
Profit before income tax	14,709	19,057	44,605	15,997	17,643
Net profit attributable to Shareholders	8,820	12,010	35,065	10,881	17,643
EPS (RMB cents) <sup>(1)</sup>	5.04	6.86	20.04	6.22	10.08

**Note:-**

- (1) For comparative purposes, EPS for the periods under review is computed based on net profit attributable to Shareholders and the pre-Invitation share capital of 175,000,000 Shares.

#### Selected items from the Financial Position of our Group

(RMB'000)	Unaudited Pro forma FY2005	Unaudited Consolidated HY2006
Non-current assets	5,752	5,842
Current assets	223,152	95,630
Current liabilities	181,895	42,433
Net current assets	41,257	53,197
Shareholders' equity	47,009	59,039

### OUR FUTURE PLANS

Our future plans are summarised as follows:-

- to set up manufacturing facilities for new products, namely seismic charge and piston nonel detonator;
- to expand our overseas markets;
- to increase the production capacities for our existing products; and
- to expand our business through acquisitions, joint ventures or strategic alliances.

### OUR CONTACT DETAILS

Our registered address is 50 Raffles Place, #29-00, Singapore Land Tower, Singapore 048623.

Our principal place of business is located at No. 1 Huagong Road, Fei County, Shandong Province, PRC.

Our office in Singapore is located at 19 Fishery Port Road, Jurong, Singapore 619736. Our telephone and facsimile numbers are (65) 6265 5918 and (65) 6268 2447 respectively.

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## THE INVITATION

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- Issue Size** : 59,000,000 New Shares. The New Shares will, upon allotment and issue, rank *pari passu* in all respects with the existing issued Shares.
- Issue Price** : \$0.32 for each New Share.
- The Offer** : The Offer comprises an invitation by our Company to the public in Singapore to subscribe for 1,500,000 Offer Shares at the Issue Price, subject to and on the terms and conditions of this Prospectus.
- The Placement** : The Placement comprises 57,500,000 Placement Shares by way of placement comprising:-
- (a) 57,300,000 Placement Shares at the Issue Price for applications by way of Application Forms; and
  - (b) 200,000 Reserved Shares at the Issue Price reserved for our Independent Directors and employees.
- Reserved Shares** : Of the Placement Shares, 200,000 Reserved Shares will be reserved for our Independent Directors and employees. In the event that any of the Reserved Shares are not taken up, they will be made available to satisfy applications made for the Placement Shares at the Issue Price or, in the event of an under-subscription for the Placement Shares, to satisfy applications made by members of the public for the Offer Shares at the Issue Price.
- Purpose of our Invitation** : We consider that the listing and quotation of our Shares on the Official List of the SGX-ST will enhance our public image and enable us to tap the capital markets to fund our business growth. It will also provide members of the public an opportunity to participate in the equity of our Company. The Invitation will also enlarge our capital base for continued expansion of our business.
- Listing Status** : Our Shares will be quoted in Singapore dollars on the Official List of the SGX-ST, subject to admission of our Company to the Official List of the SGX-ST and permission for dealing in and quotation of our Shares being granted by the SGX-ST and that no stop orders are issued by the Authority.
- Risk Factors** : Investing in our Shares involves risks which are described in the section entitled "Risk Factors" in this Prospectus.

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## PLAN OF DISTRIBUTION

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The Issue Price was determined by us, in consultation with the Manager, taking into account the prevailing market conditions and estimated market demand for the New Shares determined through a book-building process. The Issue Price is the same for each New Share and is payable in full on application.

### **Offer Shares**

The Offer Shares are made available to members of the public in Singapore for subscription at the Issue Price. The terms and conditions and procedures for application and acceptance are described in Appendix 1 in this Prospectus.

In the event of an under-subscription for the Offer Shares as at the close of the Application List, the number of Offer Shares under-subscribed shall be made available to satisfy applications for the Placement Shares to the extent there is an over-subscription for Placement Shares as at the close of the Application List.

In the event of an over-subscription for the Offer Shares as at the close of the Application List and the Placement Shares are fully subscribed or over-subscribed as at the close of the Application List, the successful applications for the Offer Shares will be determined by ballot or otherwise as determined by our Directors in consultation with the Manager and approved by the SGX-ST.

Pursuant to the terms and conditions contained in the Management and Underwriting Agreement as disclosed in the section entitled “General and Statutory Information – Management, Underwriting And Placement Arrangements” in this Prospectus, our Company appointed HL Bank and HL Bank has agreed to manage the Invitation and underwrite the Offer Shares respectively. In the event of under-subscription, HL Bank will be committed to subscribe for and pay for all unsubscribed Offer Shares. However, HL Bank may, at its absolute discretion, appoint one or more sub-underwriters.

### **Placement Shares (excluding Reserved Shares)**

Application for the Placement Shares may only be made by way of an Application Form. The terms and conditions and procedures for application and acceptance are described in Appendix 1 in this Prospectus.

In the event of an under-subscription for the Placement Shares (excluding Reserved Shares) as at the close of the Application List, that number of Placement Shares (excluding Reserved Shares) under-subscribed shall be made available to satisfy applications for the Offer Shares to the extent that there is an over-subscription for Offer Shares as at the close of the Application List.

Pursuant to the terms and conditions in the Placement Agreement as disclosed in the section entitled “General and Statutory Information – Management, Underwriting And Placement Arrangements” in this Prospectus, HL Bank has agreed to subscribe for and/or procure subscribers for the Placement Shares at the Issue Price. In the event of under-subscription, HL Bank will be committed to subscribe for and pay for all unsubscribed Placement Shares. However, HL Bank may, at its absolute discretion, appoint one or more sub-placement agents.

Subscribers of the Placement Shares (including the Reserved Shares) may be required to pay a placement commission of up to 1.0% of the Issue Price to the Placement Agent.

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## PLAN OF DISTRIBUTION

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### **Reserved Shares**

We have reserved 200,000 Reserved Shares for subscription by our Independent Directors and employees at the Issue Price. They may accept, dispose of or transfer all or part of their respective Reserved Shares after the admission of our Company to the Official List of the SGX-ST.

Any Reserved Shares not taken up will be made available first to satisfy other applications for the Placement Shares (other than Reserved Shares) to the extent there is an over-subscription for the Placement Shares (other than Reserved Shares) and then to satisfy applications for Offer Shares to the extent that there is an over-subscription for the Offer Shares.

As at the date of this Prospectus, we are not aware of any person who intends to subscribe for more than five per cent. of the New Shares. However, in the process of assessing market demand for our Shares, there may be person(s) who may indicate his interest to subscribe for more than five per cent. of the New Shares. If such person(s) was to make an application for more than five per cent. of the New Shares pursuant to the Invitation and subsequently allotted such number of New Shares, we will make the necessary announcements at an appropriate time.

None of our Shareholders or Directors intends to subscribe for the New Shares save for our Independent Directors who are eligible to subscribe for the Reserved Shares.

Further, no Shares shall be allocated or allotted on the basis of this Prospectus later than six months after the date of this Prospectus.

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## USE OF PROCEEDS FROM THE INVITATION AND EXPENSES INCURRED

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The net proceeds from the issue of the New Shares (after deducting the estimated issue expenses of \$1.98 million) is estimated to be \$16.9 million. We intend to utilise the net proceeds from the issue of the New Shares as follows:-

- (a) approximately \$6.4 million to set up and expand manufacturing facilities for the production of new products;
- (b) approximately \$0.4 million for overseas expansion;
- (c) approximately \$0.2 million to increase production capacities for our existing products; and
- (d) the balance to be used as general working capital.

For further details on the above, please refer to the section entitled “Prospects and Future Plans – Future Plans” in this Prospectus.

Pending the deployment of the net proceeds for the purposes mentioned above, the net proceeds may be deposited with banks or financial institutions or invested in short term money market instruments, or used as working capital, as our Directors may in their absolute discretion deem fit.

There is no minimum amount which, in the reasonable opinion of our Directors, must be raised from the Invitation.

The estimated amount of the expenses in connection with the Invitation is approximately \$1.98 million, including the underwriting commission, placement commission, brokerage, management, audit and legal fees, advertising and printing expenses, as well as fees payable to the SGX-ST and the Authority. All these expenses will be borne by our Company. The following table sets out the breakdown of the use of proceeds and the estimated expenses incurred:

	\$'000	Estimated amount for each dollar raised from the Invitation (cents)
Use of proceeds		
Set up and expand manufacturing facilities for production of new products	6,400	33.9
Overseas expansion	400	2.1
Increase production capacities for existing products	200	1.1
Working capital	9,900	52.4
Expenses		
Listing fees	25	0.1
Professional fees	1,052	5.6
Underwriting commission, placement commission and brokerage	472	2.5
Miscellaneous expenses	431	2.3



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## RISK FACTORS

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*We are vulnerable to a number of risks applicable to the industry and the areas in which we operate. Our business, financial condition or results of operations could be materially and adversely affected should any of these risks materialise. To the best of our knowledge and belief as at the date of this Prospectus, all risks that upon developing into actual events would have a material adverse impact on our business, results of operations or financial condition are set out below.*

*This Prospectus also contains forward-looking statements that involve risks and uncertainties. The actual results of our Group could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including, but not limited to, the risks faced by our Group as described below and elsewhere in this Prospectus.*

*You should consider carefully, together with all other information contained elsewhere in this Prospectus, the factors described below before deciding to invest in our Shares. Before deciding to invest in our Shares, you should seek professional advice from the relevant advisers about your particular circumstances.*

### **RISKS RELATING TO OUR BUSINESS AND INDUSTRY**

#### **We will be subject to product liability claims and our relevant licences, permits and approvals may be revoked or suspended if our products are found to be unsafe or defective and injuries or deaths result from the usage of our defective products**

We are engaged in the production of explosives and these explosives are mainly used in the mining, energy exploration and infrastructure construction industries such as coal mining, hydroelectric construction, oil exploration, road and railway construction and large construction projects such as the Three Gorges Dam. In the event that our products are found to be unsafe or defective as a result of negligence or omission or wilful action or sabotage, we may be subject to lawsuits and product liability claims for any injury or death to any person or damage to any property that results from the usage of our products. Our relevant licences, permits and approvals may also be revoked or suspended in such an event. These consequences will have an adverse impact on our operations and our Group's profitability, brand image, reputation and financial condition will also be adversely affected.

In addition, in cases whereby we manufacture explosives for third parties, we may not be able to seek full indemnification or any contribution from these third parties as a result of any loss caused by such products for which we may face claims. As a standard practice and a matter of goodwill, we generally provide warranty against product defects for certain products which we manufacture and produce. We may be required to recall our products or be liable for any losses or damages sustained by our customers if there are allegations of our products being unsafe or defective and we may face negative publicity as a result. Consequently, this will adversely affect our business and financial performance. Third parties may also commence proceedings against us to indemnify them in the event they are liable for damages resulting from the usage of products manufactured by us under their brand name.

#### **Our operations may be affected should we fail to comply with the conditions stipulated in our licences, permits or approvals, or in the event that any of our licences or approvals are not renewed or extended**

We are required to obtain the relevant licences, permits and approvals from the PRC authorities to carry on our business. The details of such licences, permits and approvals are set out in the section entitled "Business – Licences, Permits and Approvals" and Appendix 3 entitled "Summary of Relevant PRC Laws and Regulations" in this Prospectus. These licences, permits or approvals may stipulate conditions which we are required to comply with and the respective authorities conduct random inspections on our premises to ensure that we are in compliance with the relevant regulations. In the event of a breach of any restriction or condition subject to which the licence, permit or approval was granted, the licence, permit or approval may be suspended or revoked.

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## RISK FACTORS

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The requirements imposed by the authorities are also subject to change and new requirements may be imposed from time to time. As such, we will have to continuously monitor and ensure compliance with all these existing conditions and ensure that we keep abreast of any new development and requirement. There is no assurance that the requirements set by the authorities will be met at all times. Accordingly, should our licences, permits or approvals be suspended or revoked, we will not be able to continue our production activities, which will have a material and adverse impact on our turnover and profitability.

### **Accidents, fire, lightning or natural calamities at our production and storage facilities or during the transport of our products or raw materials may adversely affect our business operations**

Our business requires extensive use of explosive materials such as explosive chemicals which are stored in our warehouses. Our production facilities also house finished products before they are transported to our warehouses at the end of each day for storage. Our explosive chemicals and finished products are all susceptible to explosions. Whilst we have introduced stringent safety requirements and regulations governing our production facilities and storage of finished products, as set out in the section entitled “Business – Safety Measures” in this Prospectus, the risk of accidental explosions cannot be eliminated. Our insurance coverage may not be sufficient in the event of a severe incident of explosion at our storage facilities, production facilities, product and process improvement facilities or during the transport of our products or raw materials, which may arise from negligence, non-compliance of our safety procedures by our staff or other reasons. This may also severely disrupt our business operations and the authorities may also revoke our licences for the production of explosives. In the event our licences for the production of explosives are revoked by the relevant authorities, we will not be able to manufacture explosives and our operations will cease. Please refer to the section entitled “Business – Licences, Permits and Approvals” in this Prospectus for more information on our licences.

In addition, a fire, lightning or natural calamities, such as flooding or earthquake, resulting in significant damage to any of our production facilities, raw materials and finished goods and major disruptions to our production processes may have a significant adverse effect on our business, financial conditions and results of operations.

### **We operate in a heavily regulated and controlled industry**

The Commission regulates, *inter alia*, the purchase of explosive raw materials, product development, production levels, storage, transportation and sales activities carried out by PRC commercial explosives companies. As the explosives industry is a heavily regulated and controlled industry in the PRC, the Commission holds a meeting once a year with PRC commercial explosives suppliers and major users to review the performance of the industry in the previous financial year and to implement and improve regulatory procedures relating to the industry such as research and development activities, testing activities and mass production of products. The Commission also issues guidelines relating to production levels in the explosives industry and imposes limits on our production levels. The licence issued to the commercial explosives producers in the PRC will indicate the production capacity of commercial explosives permitted for that particular producer. Every sales contract in respect of our sales to customers located in the PRC also has to be approved by and filed with the Commission. The National Development & Reform Commission (中华人民共和国国家发展和改革委员会) also sets out guidelines on the range of prices for the sale of each type of commercial explosives products within the PRC which we have to adhere to. The export of our products through our export agents to our overseas customers requires approvals, which will be obtained by the export agents, from the relevant authorities.

In the event that demand for our products increase and we have to raise our production level, there is no guarantee that the Commission may approve an increase in our production level and this may restrict our production capacity and revenue growth. Further, the sales contracts that we have entered into with our customers in the PRC may be deemed void by the Commission or may not be approved in a timely manner and hence our business and revenue may be adversely affected. In addition, any reduction in the pricing of explosive products recommended by the National Development & Reform Commission will adversely affect our revenue, profits and profit margins. Any change in policies in respect of the explosives industry in the PRC by the PRC government may adversely affect our sales in the PRC and hence our revenue, profitability and business operations.

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## RISK FACTORS

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Please refer to Appendix 3 of this Prospectus entitled “Summary of Relevant PRC Laws and Regulations” for further details on the applicable PRC laws governing our business operations.

In addition, our products that are manufactured and exported overseas have to meet and comply with the relevant safety standards and regulatory requirements stipulated by the overseas governments. The Group may be exposed to the risks of not being able to comply with such standards and requirements and further changes to such standards and requirements or changes of policies by such overseas countries may adversely affect our sales and in turn, affect our revenue, profitability and export operations.

### **Our profitability may be affected by increases in raw material prices or failure to obtain alternative supply of raw materials**

Our main raw materials in the production of explosive products are mainly explosive chemicals which, in aggregate, constituted approximately 76.7%, 83.0%, 87.1% and 78.0% of our costs of sales in the last three financial years and HY2006 respectively. We purchase all our raw materials locally in the PRC. The prices of raw materials may fluctuate due to supply and demand factors. As we do not enter into any long-term supply agreement with our suppliers, we run the risk of not being able to purchase sufficient quantities of raw materials to meet our production requirements. If such a shortage situation arises and we are unable to obtain alternative supplies of raw materials, our production activities will be adversely affected. In addition, in the event that we have to pay higher prices when prices of raw materials increase due to supply and demand factors, and we are unable to pass on such cost increases to our customers, our profitability and hence financial performance may be adversely affected. For further details, please refer to the sections entitled “Management’s Discussion and Analysis of Results of Operations – Overview” and “Prospects and Future Plans – Trends” in this Prospectus.

### **We are exposed to risks of stock obsolescence and inventory write-down**

Our products have a shelf life of between one to five years and are required to meet stringent quality standards set by the authorities and our customers. As such, we are exposed to risks of stock obsolescence and inventory write-down, when the shelf life of our products expire or our products do not meet the quality requirements of the authorities or our customers. In such circumstances, we are required to adjust the inventory value of our products to reflect their net realisable value or make specific provision for slow moving items, thereby adversely affecting our financial performance.

Details of our inventory management policy and analysis of our inventory obsolescence and inventory write-down/off for the past three financial years and HY2006 are disclosed in the section entitled “Management’s Discussion and Analysis of Results of Operations – Inventory Management” in this Prospectus.

### **We are dependent on the PRC market and any significant decline in demand for our products in the PRC market will adversely affect our turnover and profitability**

We are dependent on the PRC market, which accounted for 57.7%, 56.9%, 49.9% and 56.9% of our revenue for the last three financial years and HY2006 respectively. Any adverse change in the economic conditions, for whatever reason, in the PRC market may have a negative impact on the demand for our products or may result in a need for us to review our marketing strategies and our future expansion plans. In such an event, our turnover and profitability will be materially and adversely affected.

### **We may face uncertainties and risks associated with our entry into new overseas markets**

As described in the section entitled “Prospects and Future Plans – Future Plans” in this Prospectus, we intend to penetrate into new markets overseas such as the markets in Mongolia and Kazakhstan which are potential large markets where we can expand our core business. We intend to increase our presence in these markets by intensifying our sales and marketing activities to penetrate into these markets. We have sent out sales personnel to these markets for business development and some of the potential customers from Mongolia and Kazakhstan have also visited our manufacturing facilities. However, such

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## RISK FACTORS

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initiatives involve numerous risks, including but not limited to, the costs of setting up our presence overseas and unexpected or additional costs that may affect our results or operations. There can be no assurance that we will be successful in our entry into these new markets overseas. In the event that we fail to expand our business efficiently, our business, profitability and financial performance may be affected adversely.

### **We are dependent on our major customers and export agents**

Our major customers accounted for an aggregate of approximately 37.9%, 50.0%, 52.4% and 46.7% of our total revenue for the past three financial years and HY2006 respectively. Please refer to the section entitled “Business – Major Customers” in this Prospectus for further details. There is no assurance that we will continue to retain these customers and that they will maintain or increase their current level of business with our Group. In the event of a reduction or cancellation of orders from any of our major customers or if we lose any of our major customers or if delivery of contracted sales to our major customers are delayed, our business, financial condition and results of operations will be adversely affected. Please refer to the section entitled “Management’s Discussion and Analysis of Results of Operations – HY2006 vs HY2005 Revenue” for further details of the decrease in revenue from some of our major customers (namely, Orica, Beston and Aoxin) in HY2006. Further, any changes in the laws and regulations relating to commercial explosive products or the implementation thereof in the jurisdictions in which our major customers operate may result in disruptions in product delivery, increased business costs and/or limits imposed on the quantum of our products imported, amongst others. In such event, our operations and profits will be adversely affected.

We export our products to our overseas customers through our export agents which are licenced by the PRC government to export commercial explosives overseas. To the best knowledge of our Directors, there are currently only four such licenced export agents in the PRC. We utilise the services of the agents to export our products to our overseas customers on a sales contract instead of long term basis. In the event that we are unable to secure the services of any of the export agents to export our products overseas or if our export agents are temporarily unable to carry out exports to some of our customers, our sales to our overseas customers and hence our profits from our overseas sales will be adversely affected. Please refer to the section entitled “Management’s Discussion and Analysis of Results of Operations – HY2006 vs HY2005 Revenue” for further details of the decrease in revenue from USA which is partially due to our export agent, Aoxin, temporarily being unable to export to USA.

### **We are subject to shipping disruptions**

Shipping disruptions due to various reasons including weather conditions, political turmoil, social unrest and port strikes may lead to delayed or lost shipments and have an adverse impact on our export sales to countries overseas. Our export sales are mostly under free-on-board shipment terms, where cost or risk of loss of or damages to the goods are borne by our customers at the designated shipping ports. However, in certain export sales where we bear the risks of shipping, any disruption will result in compensation to customers and adversely affect our reputation, revenue and profits.

### **We are dependent on key executives and the loss of any key personnel without adequate replacements could have a material adverse impact on our business, operations and future viability**

Our continued success is dependent on our ability to retain the services of our core management team, in particular, our Managing Director, Sun Bowen, and our Executive Director, Bao Hongwei, who have played important roles in our growth since the establishment of our Group. Further details of our management can be found under the section entitled “Directors, Management and Staff” in this Prospectus. Our core management team consists of personnel who have a number of years of experience in the explosives industry, as well as in sales and marketing, financial and operating functions. The loss of the services of certain existing key personnel without suitable and timely replacements or the inability to attract and retain qualified personnel will have an adverse impact on our operations and/or delay our expansion plans. In particular, the loss of the services of our Managing Director, Sun Bowen, and our Executive Director, Bao Hongwei, will have an adverse impact on the revenue and profits of our Group.

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### **We are dependent on technical staff and collaboration with research institutions for our product and process development activities**

We conduct product and process development activities to improve our existing products and manufacturing processes as well as to develop new products and processes. We also engage external consultants or collaborate with universities or research institutions to identify the latest methods of production to improve our existing production processes to be more efficient and cost effective and to support the development of new and innovative products. Please refer to the section entitled “Business – Product and Process Development” in this Prospectus for further details of our product and process development activities. As the explosives production industry is a highly specialised industry, we may not be able to employ a sufficient number of qualified technical staff for our product and process development activities or we may not be able to maintain existing relationships with our current external consultants or collaborations with the research institutions and we may be unable to find suitable replacements. In such event, the quality and activities relating to the development and improvement of new and existing products respectively and to the improvement of our production processes may be adversely affected.

### **Our new or improved products are subject to the approval of the authorities and we face uncertainty over the demand for our new or improved products**

Our new or improved products are required to be approved by the relevant PRC authorities before we are able to market and sell them in the PRC. In addition, we face uncertainty in respect of the demand for our new or improved products by end-users. There is no guarantee that our new or improved products will be well-received by the end-users as the quality and usage of our new or improved products may not meet the requirements of the end-users. In the event that our new or improved products are not approved by the relevant PRC authorities or are not well-received by the end-users, our revenue, profitability and business may be adversely affected and we may need to write-off the development costs relating to these products.

### **We are subject to credit risk of customers and the non-collectibility of debts would have an adverse impact on our financial performance**

We are vulnerable to the credit risk of our customers. From time to time, in the ordinary course of our business, certain customers may default on their payment to us. Economic and/or political pressures in the PRC where we operate, including those arising from local market disruptions or currency crises, may adversely affect the ability of our customers located in that country to obtain foreign exchange or credit facilities to pay us. Although we review our credit exposure to our customers regularly, default risk may nevertheless arise from events or circumstances that are difficult to anticipate or detect.

We invoice our customers upon delivery of goods. For new customers, we will either sell on cash terms or payment in advance. We will evaluate their credit-worthiness before extending credit to them. For our regular customers in the PRC, we usually grant them credit terms of 90 days. For our regular overseas customers, we usually grant them progressive credit terms of 30 to 150 days. Please refer to the section entitled “Management’s Discussion and Analysis of Results of Operations – Credit Management” in this Prospectus for further details of the credit terms granted to our customers. If any of our major customers face financial difficulties, we would be subject to the risk of non-collectibility of our trade receivables. Customers facing cashflow problems may also be slow in settling their accounts with the Group and in extreme situations, the Group may have to write off debts which cannot be collected. The non-collectibility of debts would have an adverse impact on our financial performance. Any changes in the credit terms or delay in the settlement of the outstanding accounts may lead to higher financing costs for us, and this will adversely affect our profitability and cash flow.

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## RISK FACTORS

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Net provision for impairment of trade and other receivables and bad trade debts written off for the past three financial years and HY2006 are as follows:-

	FY2003	FY2004	FY2005	HY2006
Amount (RMB'000)	1,237	519	–	–
As a percentage of profit before income tax (%)	8.4	2.7	–	–

In addition, we are given credit terms by our supplier. In the event that our suppliers terminate or shorten the credit terms granted to us due to poor economic conditions or for any other reasons, our cash flow and financial condition may be adversely affected.

**We may require additional financing and the availability of funding facilities may affect our ability to expand in the future and we may not be able to obtain financing on terms acceptable to us**

In the longer term, we may require additional financing to fund our future growth plan. Our Group cannot assure you that any additional financing we may need will be available or, if available, will be on terms satisfactory to us. For example, the capital and banking markets in the PRC are at various stages of development and generally, medium-term and long-term financing in local currencies are not readily available to foreign controlled enterprises. This may have an adverse impact on our ability to expand in future in the PRC. Any additional equity financing will dilute shareholders' interests and any additional debt financing may contain restrictive conditions with respect to dividends, future capital raising and other financial and operational matters. If we are unable to obtain additional financing in the event that such financing is needed, our business, results of operations and financial condition may be adversely affected. Please refer to the section entitled "Management's Discussion and Analysis of Results of Operations" in this Prospectus for information on our Group's financial position.

**We rely on our trademarks and patents which are essential to the development of our business**

We rely on the local trademark and patent laws in the PRC to protect our trademark and patent rights. There is no assurance that these local trademark and patent laws will be effective or that our competitors will not adopt product names or trademarks or manufacture products that are similar to ours. Effective enforcement of intellectual property rights is important for the protection of our interests in the PRC. At this relatively early stage of development of the system for the protection of intellectual property rights in the PRC, the regulation of unauthorised use of our trademark, unauthorised production of products that are similar to ours and the enforcement of patent and such other rights in the PRC is not as certain or effective as in jurisdictions with more established systems. In the event the courts and administrative agencies in the PRC do not effectively enforce our Group's intellectual property rights, it could have a material adverse effect on us.

In addition, there is no assurance that our products do not and will not infringe other registered trademarks held by third parties. As such, we may be subject to legal proceedings and claims relating to such infringement. In the event of any claims or litigation, involving infringement of the intellectual property rights of third parties, whether with or without merit, it could result in a diversion of our management time and resources. Any successful claim against us arising out of such proceedings could result in substantial monetary liability and will materially affect the continued sales of the affected products and our revenue and profitability.

We have acquired certain trademarks and patents pursuant to the Restructuring Exercise. As at the Latest Practicable Date, our trademark is registered while the registration of transfer of patents to our Subsidiary is still in progress. Please see the section entitled "Intellectual Property" in this Prospectus for further details. In the event that the registration of transfer of such patents is not successful, we may have no legal recourse to protect such patent rights if there is any unauthorised use or misappropriation of our patents, or if other manufacturers attempt to pass off their explosive products under our brand name.

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### **We are dependent on licensing arrangements for new products developed pursuant to collaborations with universities or research institutes**

Pursuant to the collaboration agreements entered into with universities or research institutes, we will obtain the right to manufacture new products developed through such collaborations through a licence granted by the university or research institute. If we fail to honour the terms of the licences or if the licence is terminated for any reason, we could be forced to cease or refrain from manufacturing such products which are the subject of the licence. In the event we are so restricted from manufacturing and selling such products, our operations and financial performance could be adversely affected.

### **We do not have a hedging policy on our foreign currency exposure and therefore we are exposed to any adverse fluctuations in the exchange rates**

Our sales contracts are denominated in RMB and USD (representing 64.2% and 35.8% of our total revenue for FY2005; and representing 63.6% and 36.4% of our total revenue for HY2006 respectively). All of our purchases and operating expenses are denominated in RMB.

To the extent that our sales, purchases and expenses are not matched in the same currency, we will be exposed to any adverse fluctuation of the USD against the RMB. We do not have any foreign exchange gain or loss for the past three financial years as the RMB is pegged against the USD and our sales invoices are issued in RMB. With the removal of the RMB peg against the USD in July 2005 and the expected increase in our overseas sales, our future earnings may be materially and adversely affected should there be adverse fluctuations of the USD against the RMB. Further details of our foreign exchange exposure are disclosed in the section entitled "Management's Discussion and Analysis of Results of Operations – Foreign Exchange Management" in this Prospectus.

At present, we do not have any formal policy to hedge against our foreign currency exposure. We may, when necessary, enter into foreign currency forward contracts to hedge against exposure from foreign currency fluctuations. However, there is no assurance that our efforts will successfully hedge against all foreign currency fluctuations.

### **Terrorist attacks and other acts of violence or war may affect the markets in which our customers are located and our profitability**

The effects of terrorist attacks or armed conflicts may negatively affect our sales in countries where our customers are located. Such terrorist attacks or armed conflicts could have an adverse impact on the demand for our products and our ability to deliver our products to our customers in a timely and cost-effective manner, which in turn could have a material adverse impact on our revenue, business and financial condition. Political and economic instability in some regions of the world may also result from such terrorist attacks and armed conflicts and could negatively impact our business and financial condition. The consequences of any of these terrorist attacks or armed conflicts are unpredictable, and we are not able to foresee events that could have an adverse effect on our business or your investment.

### **We may make acquisitions which could put a strain on our resources, cause ownership dilution to our Shareholders and adversely affect our financial results**

We may in the future acquire businesses that complement our existing business. The entire acquisition process involving, *inter alia*, identifying suitable targets, negotiations and due diligence can put a strain on our resources and might not result in completion. Future acquisitions could also divert our management's attention from other business concerns and may expose our business to unforeseen liabilities or risks associated with entering new markets. We might also lose key employees while integrating new organisations. Consequently the acquired business may not be successfully integrated and we might not achieve the anticipated revenues and cost benefits. Future acquisitions could also result in lapses in customer service, potential dilutive issuance of equity securities or the incurrence of debt, contingent liabilities, possible impairment charges related to goodwill or other intangible assets or other unanticipated events or circumstances, any of which could adversely affect our business and financial performance.

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## RISK FACTORS

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### RISKS RELATING TO THE PRC

#### **We may be adversely affected by changes to the laws and regulations of the PRC and the interpretation and implementation thereof**

Our subsidiary, Yinguang Technology, being a wholly foreign-owned enterprise, is required to comply with certain PRC laws and regulations.

The PRC government is still in the process of developing a comprehensive set of laws and regulations in the course of the PRC's transformation from a centrally planned economy to a more free market oriented economy. As the legal system in the PRC is still in a state of flux, laws and regulations or the interpretation of the same may be subjected to change. Furthermore, any change in the political and economic policy of the PRC government may also lead to similar changes in the laws and regulations or the interpretation thereof. Such changes may affect the business and prospects of foreign companies with operations and business in the PRC such as ourselves.

The PRC legal system is a codified legal system comprising written laws, regulations, circulars, administrative directives and internal guidelines. Unlike common law jurisdictions like Singapore, decided cases do not form part of the legal structure of the PRC and thus have no binding effect. Experience in the implementation, interpretation and enforcement of the laws and regulations and of commercial contracts, undertakings and commitments entered into are also limited. As such, the administration of PRC laws and regulations may be subjected to a certain degree of discretion by the authorities. The outcome of dispute resolutions may not have the level of consistency or predictability as in other countries with more developed legal systems. Due to such inconsistency and unpredictability, if we should be involved in any legal dispute in the PRC, we may experience difficulties in obtaining legal redress or in enforcing our legal rights.

From time to time, changes in laws and regulations or the implementation thereof may also require us to obtain additional approvals and licences from the PRC authorities for the conduct of our operations in the PRC. In such event, we may need to incur additional expenses in order to comply with such requirements. This will in turn affect our financial performance as our business cost will increase. Furthermore, there can be no assurance that such approvals or licences will be granted to us promptly or at all. If we experience delay in obtaining or are unable to obtain such required approvals or licences, our operations and business in the PRC, and hence our overall financial performance and condition, will be adversely affected.

In addition, the industry in which we operate is heavily regulated by the PRC government. Please refer to Appendix 3 entitled "Summary of Relevant PRC Laws and Regulations" of this Prospectus for further details. In this regard, any changes in the laws and regulations or the implementation thereof may adversely affect our operations and business.

#### **Foreign exchange control in the PRC may affect the repatriation of funds from our PRC subsidiary**

Our PRC subsidiary, Yinguang Technology, is subject to the rules and regulations imposed by the PRC government on currency conversion. Currently, the conversion of the RMB into foreign currencies is regulated by the State Administration of Foreign Exchange of the PRC ("SAFE") which operates under the supervision of the People's Bank of China. On 1 July 1996, pursuant to the Regulations on the Administration of Foreign Exchange Settlement, Payment and Sale, foreign investment enterprises ("FIEs") are required to apply to SAFE for "Foreign Exchange Registration Certificates for Foreign Investment Enterprise". Such registration certificates are renewable annually and allow FIE to open foreign currency accounts for the payment of:-

- (a) recurring items, including the distribution of dividends and profits to foreign investors of FIEs upon presentation of board resolutions which authorise the distribution of profits or dividends and other necessary documents ("Current Account"); and



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- (b) capital items, such as repatriation of capital, repayment of loans and for securities investment (“Capital Account”).

Currency transactions within the scope of the “Current Account” can be effected without requiring the approval of SAFE, while the conversion of currency in the “Capital Account” for certain purposes still requires the approval of SAFE.

Yinguang Technology is an FIE. We have obtained the Foreign Exchange Registration Certificate which is renewable annually upon application to SAFE for our PRC subsidiary. There can be no assurance that the current foreign exchange rulings with respect to currency transactions within the scope of the Current Account will not be changed to our detriment. As such, there can be no assurance that our PRC subsidiary will be able to continue to obtain sufficient foreign exchange to pay dividends.

In addition, on 24 January 2005, SAFE promulgated the Circular of the State Administration of Foreign Exchange Concerning Relevant Issues on Improving Foreign Exchange Administration for Mergers and Acquisitions with Foreign Entities (the “January Notice”). The January Notice provides for, *inter alia*, strict supervision and control by SAFE and its local branches/offices of capital contribution examination, foreign currency registration for share transfers, registration of shareholders’ loan, remittance of profits out of the PRC, re-investment of profits, and share transfers by foreign invested enterprises established in the manner of acquisitions of PRC enterprises by foreign enterprises with PRC residents as shareholders.

According to the Notice concerning the Relevant Issues for the Registration of Overseas Investments by Domestic Residents and Foreign Exchange Registration for Foreign Acquisition promulgated by SAFE on 8 April 2005 (the “April Notice”), it was further required that PRC residents who have contributed their domestic assets or shares into the overseas companies and thus hold the shares of such overseas companies directly or indirectly, shall conduct supplemental foreign exchange registration with the local foreign exchange authority, even if the relevant acquisition of the domestic company had been completed prior to 24 January 2005. Without such supplemental registration, the PRC residents are prohibited from conducting foreign investment and conducting other foreign exchange business under capital items, and the foreign exchange registration for the FIE will not be proceeded by the local foreign exchange authority. If the foreign exchange registration for the FIE was made by false or misleading information and representation, the FIE shall be liable for the profits remitted out of the PRC and other transactions under the capital item since the registration date. The PRC resident who is the largest shareholder in the overseas invested companies directly or indirectly is also required to go through registration for modification or record with the local foreign exchange authority within 30 days from the date of any increase/decrease of capital, share transfer, merger/division, overseas share investment, and foreign guarantees concerning domestic assets of such overseas invested companies (“material issues”). Failure to conduct the above supplemental registration, registration for modification or record of the material issues with the local foreign exchange authority fully could adversely affect our ability to remit our profits, liquidation, share transfer and capital decreasing fees abroad, and could be punished as foreign exchange evasion. The relevant PRC residents, Sun Bowen and Bao Hongwei had on 1 July 2005 completed the supplemental registration with the local foreign exchange authority, and each of them has given an undertaking to comply with the above requirements in relation to the registration for modification or record with the local foreign exchange authority if any material issues should occur.

On 21 October 2005, SAFE promulgated a Notice on Relevant Issues concerning Foreign Exchange Administration for Domestic Residents to Engage in Fundraising and in Return Investments through Overseas Special Purpose Companies (the “October Notice”) and the October Notice has come into effect on 1 November 2005. According to the October Notice, PRC domestic resident legal person(s) or domestic resident natural person(s) (collectively, “PRC domestic person(s)”) may directly or indirectly establish or control a foreign company (“Special Purpose Company”) to engage in foreign fundraising exercise using the assets or rights and interests owned by such PRC domestic person(s). The October Notice sets out certain procedures and requirements to be complied with prior to the establishment or control of a Special Purpose Company by PRC domestic person(s).

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The October Notice shall supercede the January Notice and the April Notice. However, in relation to a Special Purpose Company that has, before 1 November 2005:-

- (a) been established or controlled by PRC domestic person(s);
- (b) completed all restructuring exercise for its direct investment or ownership of domestic equity interests and assets, in the form of for example, acquisition or exchange of equity interests, establishment of a FIE, agreement to purchase or control domestic PRC assets (“Return Investment”); and
- (c) not made foreign exchange registration for overseas investment,

it shall make a supplementary foreign exchange registration for overseas investment before 31 March 2006.

Notwithstanding, Yinguang Technology has obtained the Foreign Exchange Registration Certificate and Sun Bowen and Bao Hongwei had further completed the relevant supplemental registration as mentioned above for their BVI companies.

According to the October Notice, upon completion of the Invitation, the proceeds may be remitted back to the PRC in accordance with the manner disclosed in this Prospectus. Please see the section entitled “Use of Proceeds from the Invitation and Expenses Incurred” in this Prospectus. Further, all profits, dividends and earnings in foreign currency pursuant to any capital change of the Special Purpose Company obtained by the PRC domestic person(s) shall be remitted to the PRC within 180 days from the date of receipt. In the event that there is a major change to the capital of the Special Purpose Company that does not involve a Return Investment by the Special Purpose Company, for example, a capital increase or reduction, merger or division, provision of guarantee in favour of a third party, the relevant PRC domestic person(s) shall apply to the local foreign exchange authority for the registration of such modification within 30 days from the date of such material change.

We cannot provide any assurance that the PRC regulatory authorities will not impose further restrictions on the convertibility of the RMB. As our subsidiary in the PRC generates a significant proportion of our revenue and these revenues are denominated mainly in RMB, any future restrictions on currency exchanges may limit our ability to repatriate such revenues for the distribution of dividends to our Shareholders or for funding our other business activities outside the PRC.

### **Cessation of income tax exemptions or incentives for our PRC subsidiary will have an adverse impact on our profitability**

Yinguang Technology, an FIE, is subject to Foreign Enterprise Income Tax (“FEIT”) pursuant to the Tax Law of the People’s Republic of China for Foreign Investment Enterprises (the “FIE Tax Law”). The current applicable FEIT rate for Yinguang Technology is 33%.

According to a preferential tax approval issued by National Taxation Bureau of Fei County dated 15 June 2005, Yinguang Technology is considered to be an FIE that is engaged in the production business and since its approved operational period is not less than 10 years, it shall be exempted from paying PRC FEIT for two years commencing from the first profit-making year; and shall be granted a 50% reduction in FEIT payable for the subsequent three years. Any removal, expiry, suspension, variation or reduction of such tax benefits will have an adverse impact on our Group’s net distributable profits.

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### **We are subject to environmental laws and regulations**

As a result of our production activities which will produce industrial wastewater and polluted air, our Group is subject to environmental laws and regulations in the PRC. Please refer to Appendix 3 entitled “Summary of Relevant PRC Laws and Regulations” in this Prospectus for further details of the environmental laws. Changes in environmental regulations could adversely affect us. The PRC environmental authorities have the power to take action against us for failure to comply with the environmental regulations, including the imposition of fines and revocation of licences and land rights. In such event, our business and profitability will be adversely affected.

In addition, compliance with the environmental laws and regulations brings with it on-going costs. Please refer to the section entitled “Business – Licences, Permits and Approvals” in this Prospectus for details of environmental licences and permits obtained by our Group. It is also possible that the PRC governmental authorities will adopt additional or more stringent regulations that would require us to incur additional costs on environmental compliance matters. In the event that these additional costs are incurred in the future, our business and financial performance may be adversely affected.

### **Foreign commercial explosives producers may be allowed to set up operations and sell their products in the PRC**

Currently, the bulk of commercial explosives used in the PRC are supplied by PRC explosives companies. To the best of the knowledge of our Directors, the only foreign commercial explosives producer which has been allowed to establish production facilities in the PRC to manufacture and supply commercial explosives to the PRC market is Orica (Weihai) Explosives Co., Ltd. In the event that other foreign commercial explosives companies are allowed to supply commercial explosives to the PRC market, this will intensify competition in the PRC commercial explosives industry. While the prices of commercial explosives supplied by overseas explosives companies tend to be higher than those of PRC explosive manufacturers and will not impact on our pricing as such, an increase in the number of foreign competitors in the PRC may lead to a reduced demand for our products in the PRC. This reduced demand will directly affect our profit margin and our Group’s operations and profitability in respect of the PRC market will be adversely affected.

### **Our subsidiary, operations and significant assets are located in the PRC. Our Company may not be accorded the same rights and protection that would be accorded under the Singapore Companies Act. In addition, it could be difficult to enforce a Singapore judgment against our subsidiary, our Directors and officers**

Our principal subsidiary and our operations are located in the PRC. Our principal subsidiary is therefore subject to the relevant laws in the PRC. The Singapore Companies Act may provide Shareholders with certain rights and protection of which there may be no corresponding or similar provisions under PRC laws. As such, our Company may or may not be accorded the same level of shareholder rights and protection that would be accorded under the Singapore Companies Act. In addition, two of our Directors and four of our Executive Officers are non-residents of Singapore, and substantially all the assets of these persons are located outside Singapore. As a result, it could be difficult for investors to effect service of process in Singapore, or to enforce a judgment obtained in Singapore against our subsidiary or any of these persons.

## **RISK FACTORS RELATING TO AN INVESTMENT IN OUR SHARES**

### **Future sales of Shares could adversely affect our Company’s Share price**

Any future sale or availability of our Shares in the public market can have a downward pressure on our Share price. The sale of a significant amount of Shares in the public market after the Invitation, or the perception that such sales may occur, could materially and adversely affect the market price of our Shares. These factors also affect our ability to sell additional equity securities. Except as otherwise described under the section entitled “General Information on our Group – Moratorium” in this Prospectus, there will be no restriction on the ability of our Substantial Shareholders to sell their Shares either on the SGX-ST or otherwise.

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### **There has been no prior market for our Shares and the Invitation may not result in an active or liquid market for our Shares**

Prior to the Invitation, there has been no public market for our Shares. Therefore, we cannot predict the extent to which a trading market will develop or how liquid that market might become. No assurance can be given that an active trading market for our Shares will develop or, if developed, will be sustained. If an active trading market is not developed or sustained, the liquidity and trading price of our Shares could be materially and adversely affected. You should not take the listing as an indication of the merits of the Invitation, our Company, our Subsidiary, our Shares or the New Shares.

### **Control of existing Shareholders may limit your ability to influence the outcome of decisions requiring the approval of Shareholders**

After the Invitation, we anticipate that our existing Shareholders, namely, Fortsmith Investments Limited, Lombard Inc. and Fivestar Limited, will collectively own approximately 74.8% of our issued share capital. These Shareholders, acting together, will be able to significantly influence our corporate actions such as mergers or takeover attempts in a manner that could conflict with the interests of our public Shareholders. For further details of our existing Shareholders, Fortsmith Investments Limited, Lombard Inc. and Fivestar Limited, please refer to the section entitled “General Information on Our Group – Shareholders” of this Prospectus.

### **Investors in our Shares will face immediate and substantial dilution in the NAV per Share and may experience future dilution**

Our Issue Price is substantially higher than our Group’s NAV per Share of S\$0.125 (adjusted for the net proceeds from the Invitation). Thus, there is an immediate and substantial dilution in the NAV per Share to new investors (please refer to the section entitled “Dilution” in this Prospectus for further details). If we were liquidated immediately following the Invitation, each Shareholder subscribing for the New Shares would receive less than the price they paid for their Shares.

### **Our Share price may be volatile, which could result in substantial losses for investors acquiring our Shares in the Invitation**

The market price of our Shares could be subject to significant fluctuations in response to various factors and events, some of which are beyond our control, including *inter alia*, the liquidity of the market for our Shares, differences between our actual financial operating results and those expected by investors and analysts, changes in analysts’ recommendations or projections, changes in general market conditions and broad market fluctuations.

In addition, our Share price will be under downward pressure if certain of our Directors, management staff or employees sell their Shares immediately after the Invitation or the expiry of the Moratorium.

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## INVITATION STATISTICS

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<b>ISSUE PRICE</b>	32.0 cents
<b>NTA<sup>(1)</sup></b>	
NTA per Share based on the unaudited consolidated balance sheet of our Group as at 30 September 2005:-	
(a) before adjusting for the estimated net proceeds of the New Shares and based on the pre-Invitation share capital of 175,000,000 Shares	7.12 cents
(b) after adjusting for the estimated net proceeds of the New Shares and based on the post-Invitation share capital of 234,000,000 Shares	12.55 cents
Premium of Issue Price per Share over the NTA per Share as at 30 September 2005:-	
(a) before adjusting for the estimated net proceeds of the New Shares and based on the pre-Invitation share capital of 175,000,000 Shares	3.50 times
(b) after adjusting for the estimated net proceeds of the New Shares and based on the post-Invitation share capital of 234,000,000 Shares	1.55 times
<b>EARNINGS<sup>(1)</sup></b>	
Historical pro forma net EPS of our Group for FY2005 based on the pre-Invitation share capital of 175,000,000 Shares	4.07 cents
Historical pro forma net EPS of our Group had the Service Agreements set out in the section entitled "Directors, Management and Staff – Service Agreements" in this Prospectus been effected for FY2005 based on the pre-Invitation share capital of 175,000,000 Shares	3.88 cents
<b>PRICE EARNINGS RATIO</b>	
Historical price earnings ratio based on the historical pro forma net EPS of our Group for FY2005	7.86 times
Historical price earnings ratio based on the historical pro forma net EPS of our Group had the Service Agreements set out in the section entitled "Directors, Management and Staff – Service Agreements" in this Prospectus been effected for FY2005	8.25 times
<b>CASH FLOW FROM OPERATING ACTIVITIES<sup>(1)</sup></b>	
Historical pro forma cash flow per Share from operating activities of our Group for FY2005 based on the pre-Invitation share capital of 175,000,000 Shares	0.56 cents
<b>PRICE TO CASH FLOW FROM OPERATING ACTIVITIES</b>	
Historical price to cash flow from operating activities ratio based on the historical pro forma cash flow per Share from operating activities of our Group for FY2005	57.14 times

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## INVITATION STATISTICS

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### MARKET CAPITALISATION

Market capitalisation based on the Issue Price of 32.0 cents per Share and post-Invitation share capital of 234,000,000 Shares \$74.88 million

#### Note:-

- 1) Earnings and cash flow from operating activities are translated based on the exchange rate of RMB1.00 : S\$0.2033, which was the average exchange rate for FY2005. NTA is translated based on the exchange rate of RMB1.00 : S\$0.2110, which was the closing exchange rate for HY2006.

## CAPITALISATION AND INDEBTEDNESS

The following table shows the cash and cash equivalents, indebtedness and capitalisation of our Group as at 30 September 2005, based on our unaudited consolidated balance sheet:-

- (a) on an actual basis; and  
 (b) as adjusted for the net proceeds from the Invitation.

	<b>(a)</b> <b>As at</b> <b>30 September 2005</b> <b>(RMB'000)</b>	<b>(b)</b> <b>As adjusted for the</b> <b>net proceeds from</b> <b>the Invitation</b> <b>(RMB'000)</b>
<b>Cash and cash equivalents</b>	22,259	105,675
<b>Indebtedness</b>		
– Short term borrowings	20,000	20,000
<b>Shareholders' equity</b>	59,039	142,455
<b>Total capitalisation and indebtedness</b>	79,039	162,455

Since 30 September 2005 and up to the Latest Practicable Date:-

- (a) We have repaid the short term bank loans in October 2005 from our internal funds and do not have any short term nor long term borrowings;
- (b) On 1 November 2005, we have obtained a credit facility from the Industrial and Commercial Bank of China (Fei County Sub-branch) of RMB 40 million for our working capital. As at the date of lodgment of this Prospectus, we have not drawn down this credit facility; and
- (c) Our cash and cash equivalents are approximately RMB 19.2 million as at the Latest Practicable Date.

Save for the above and changes in accumulated profits arising from our day-to-day operations in the ordinary course of business, there were no changes in our Group's cash and cash equivalents and capitalisation and indebtedness from 30 September 2005 and up to the Latest Practicable Date.

Further, none of our Group is in breach of any of the terms and conditions or covenants associated with any credit arrangement or bank loan which could materially affect the Company's financial position and results or business operations, or the investments by any Shareholder of the Shares.

### Contingent Liabilities

As at the Latest Practicable Date, we do not have any contingent liabilities.

### Operating Lease Commitments

As at the Latest Practicable Date, we have the following operating lease commitments:

	<b>RMB'000</b>
Within 1 year	3,000
Within 2 to 5 years	2,250
<b>Total</b>	<b>5,250</b>

The operating lease relates to the rental of our production and storage facilities and certain office properties. Please refer to the section entitled "Business – Properties and Fixed Assets" in this Prospectus for more details.

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## CAPITALISATION AND INDEBTEDNESS

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### **Capital Commitments**

As at the Latest Practicable Date, we do not have any capital commitments.

Save as disclosed above, we have no other borrowing or indebtedness in the nature of borrowings including bank overdrafts and liabilities under acceptances (other than normal trading credits) or acceptances credits, mortgages, charges, hire purchase commitments, guarantees or other material contingent liabilities, and capital expenditure commitments.

Based on the above and after taking into consideration our present cash position and bank borrowings, in the opinion of our Directors, as at the date of the lodgment of this Prospectus, the working capital available to us is sufficient for our present requirements.



## DILUTION

Dilution is the amount by which the Issue Price to be paid by the applicants for our New Shares in the Invitation exceeds our NAV per Share after the Invitation. The unaudited consolidated NAV per Share of our Group as at 30 September 2005 before adjusting for the net proceeds from the Invitation and based on the pre-Invitation issued and paid-up share capital of 175,000,000 Shares was 7.1<sup>(1)</sup> cents.

Based on the issue of 59,000,000 New Shares at an Issue Price of S\$0.32 for each New Share pursuant to the Invitation and after adjusting for the net proceeds from the Invitation and for any disposal or acquisition which occurred between 30 September 2005 and the date of registration of this Prospectus, the adjusted NAV of our Group as at 30 September 2005 would have been S\$0.125 per Share based on the post-Invitation issued and paid-up share capital of 234,000,000 Shares. This represents an immediate increase in NAV of S\$0.054 per Share to our existing Shareholders and an immediate dilution in NAV of S\$0.195 per Share to our new investors. The following table illustrates such dilution on a per Share basis:-

	<b>cents</b>
Issue Price per Share	32.0
NAV per Share as at 30 September 2005 before adjusting for the Invitation <sup>(1)</sup>	7.1
Increase in NAV per Share attributable to new investors	5.4
NAV per Share after the Invitation	12.5
Dilution in NAV per Share to new investors	19.5

**Note:-**

(1) NAV per Share has been translated based on the closing exchange rate of RMB1.00 : S\$0.2110 as at 30 September 2005.

The following table summarises the total number of Shares acquired by our Directors and Substantial Shareholders during the period of three years prior to the date of this Prospectus, the total consideration paid by them and the effective cash cost per Share to them, and to our new public Shareholders pursuant to the Invitation:-

	Number of Shares acquired <sup>(1)</sup>	Total consideration (\$)	Effective cash cost per Share (\$)
<b>Directors</b>			
Dr Lim Seck Yeow <sup>(2)</sup>	25,000,000	1,000,000	0.040
Sun Bowen <sup>(3)</sup>	-	-	-
Bao Hongwei <sup>(4)</sup>	-	-	-
<b>Substantial Shareholders</b>			
Fortsmith Investments Limited <sup>(3)</sup>	122,500,000	3,500,000	0.029
Fivestar Limited <sup>(2)</sup>	45,500,000	1,820,000	0.040
Lombard Inc. <sup>(4)</sup>	7,000,000	200,000	0.029
Tan Geok Bee <sup>(2)</sup>	25,000,000	1,000,000	0.040
<b>New Shareholders</b>	<b>59,000,000</b>	<b>18,880,000</b>	<b>0.320</b>

**Notes:-**

- (1) The number of Shares acquired as stated in this section are adjusted for the Sub-division as described in the section entitled "General Information on our Group – Share Capital" in this Prospectus.
- (2) The shareholders of Fivestar Limited are Dr Lim Seck Yeow (50%) and Tan Geok Bee (50%).
- (3) Fortsmith Investments Limited is wholly-owned by Sun Bowen. On 23 March 2005, Fortsmith Investments Limited received 35,000,000 Shares from Dr Lim Seck Yeow and Tan Geok Bee at nil consideration. For further details, please refer to the section entitled "Restructuring Exercise" in this Prospectus. On 15 June 2005, Fortsmith Investments Limited received 87,500,000 Shares pursuant to the Bonus Issue. For further details, please refer to the section entitled "General Information on our Group – Share Capital" in this Prospectus.
- (4) Lombard Inc. is wholly-owned by Bao Hongwei. On 23 March 2005, Lombard Inc. received 2,000,000 Shares from Dr Lim Seck Yeow and Tan Geok Bee at nil consideration. For further details, please refer to the section entitled "Restructuring Exercise" in this Prospectus. On 15 June 2005, Lombard Inc. received 5,000,000 Shares pursuant to the Bonus Issue. For further details, please refer to the section entitled "General Information on our Group – Share Capital" in this Prospectus.

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## GENERAL INFORMATION ON OUR GROUP

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### SHARE CAPITAL

Our Company was incorporated in Singapore under the Companies Act on 12 October 2004 as a private limited company under the name of “Fabchem China Pte. Ltd.”. On 23 February 2006, the name of our Company was changed to “Fabchem China Limited” in connection with our Company’s conversion to a public company limited by shares.

As at the date of incorporation, 12 October 2004, our authorised share capital was \$10,000,000 comprising 10,000,000 ordinary shares of \$1.00 each of which two ordinary shares of \$1.00 each were issued and fully paid.

On 22 March 2005, our Company capitalised shareholders’ loans of \$1,999,998, by way of an issue of 1,999,998 fully-paid new ordinary shares of \$1.00 each (the “Loan Capitalisation”).

On 15 June 2005, our Company capitalised \$5 million from its retained earnings, being amounts from its retained earnings arising out of dividends received from Yinguang Technology, by way of a bonus issue of 5,000,000 fully-paid new ordinary shares of \$1.00 each (the “Bonus Issue”).

On 30 January 2006, the Companies (Amendment) Act 2005 came into effect. The Act was amended, among others, to abolish the concepts of par value, authorised share capital, share premium, capital redemption reserve and share discounts. Pursuant to such amendments, our Company had an issued and paid up capital of S\$7,000,000, comprising 7,000,000 ordinary shares and has no authorised share capital.

At the Extraordinary General Meeting held on 23 February 2006, our Shareholders approved, *inter alia*, the following:-

- (a) the sub-division of 7,000,000 ordinary shares with the issued and paid-up capital of \$7,000,000 in the Company into 175,000,000 ordinary shares (the “Sub-division”);
- (b) the conversion of the Company into a public limited company and the change of its name to Fabchem China Limited;
- (c) the adoption of the new Articles of Association of the Company;
- (d) the issue of New Shares pursuant to the Invitation and subject to the terms and conditions of this Prospectus. The New Shares, when issued and fully paid, will rank *pari passu* in all respects with the existing issued and fully paid up Shares; and
- (e) the authorisation to the Directors, pursuant to section 161 of the Companies Act and the Articles of Association, to allot and issue in addition to the New Shares, such further shares and/or convertible securities in the Company (whether by way of rights, bonus or otherwise) at any time and from time to time thereafter to such persons, and on such terms and conditions for such purposes as the Directors may in their absolute discretion deem fit provided always that the aggregate number of shares and/or convertible securities to be issued shall not exceed 50 per cent. of the issued share capital of the Company, or which the aggregate number of shares and/or convertible securities to be issued other than a pro-rata basis to existing shareholders of the Company shall not exceed 20 per cent. of the issued share capital of the Company. For this purpose, the percentage of the issued share capital is based on the Company’s post-Invitation issued share capital, after adjusting for new shares arising from the conversion or exercise of any convertible securities, 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 the Listing Manual and any subsequent consolidation or sub-division of shares. And unless revoked or varied by the Company in general meeting, such general mandate shall continue in force until the conclusion of the next

## GENERAL INFORMATION ON OUR GROUP

Annual General Meeting following the passing of the 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. But any authority may be previously revoked or varied by ordinary resolution of the shareholders in general meeting. The general mandate may be renewed, either unconditionally or subject to conditions.

Upon the allotment and issue of the New Shares which are the subject of the Invitation, the resultant issued and paid-up capital of our Company will be increased to approximately \$23,900,000 comprising 234,000,000 Shares. The New Shares shall have the same interest and voting rights as our existing issued Shares that were issued prior to this Invitation and there are no restrictions to the free transferability of our Shares. Details of the Articles of Association of our Company relating to the voting rights and privileges of shareholders are set out in the section entitled “General and Statutory Information – Articles of Association” in this Prospectus. There are no founder, management or deferred shares reserved for issuance for any purpose. As at the date of this Prospectus, our Company has only one class of shares, being ordinary shares in the capital of the Company.

Details of the changes to the issued and paid-up share capital of the Company since our incorporation and immediately after the Invitation are as follows:-

	Number of Shares	\$
Issued and fully paid-up ordinary shares at incorporation	2	2
Issue of new shares pursuant to the Loan Capitalisation on 22 March 2005	1,999,998	1,999,998
Issue of new shares pursuant to the Bonus Issue on 15 June 2005	5,000,000	5,000,000
	7,000,000	7,000,000
Sub-division of 7,000,000 ordinary shares with the issued and paid-up capital of \$7,000,000 in the Company into 175,000,000 ordinary shares	175,000,000	7,000,000
Pre-Invitation share capital	175,000,000	7,000,000
New Shares to be issued pursuant to the Invitation	59,000,000	16,900,000
Post-Invitation share capital	234,000,000	23,900,000

The shareholders’ funds of our Company as at 30 September 2005, before and after adjustments to reflect the Sub-division and the Invitation are set forth below.

	As at 30 September 2005 \$’000	After the Companies (Amendment) Act 2005 came into effect \$’000	After Sub-division \$’000	After the Invitation \$’000
<b>Authorised Share Capital</b>				
Ordinary shares of \$1.00 each	10,000	abolished	abolished	abolished
<b>Shareholders’ Funds</b>				
Issued and paid-up share capital	7,000	7,000	7,000	23,900
Share premium	–	abolished	abolished	abolished
Accumulated earnings/(losses)	(23)	(23)	(23)	(23)
Total Shareholders’ Funds	6,977	6,977	6,977	23,877

## GENERAL INFORMATION ON OUR GROUP

### SHAREHOLDERS

Our Shareholders and their respective shareholdings in our Company immediately before and after the Invitation are set out below:-

	Before the Invitation				After the Invitation			
	Direct Interest		Deemed Interest		Direct Interest		Deemed Interest	
	Number of Shares ('000)	%	Number of Shares ('000)	%	Number of Shares ('000)	%	Number of Shares ('000)	%
<b>Directors</b>								
Dr Lim Seck Yeow <sup>(1)</sup>	–	–	45,500	26.0	–	–	45,500	19.4
Sun Bowen <sup>(2)</sup>	–	–	122,500	70.0	–	–	122,500	52.4
Bao Hongwei <sup>(3)</sup>	–	–	7,000	4.0	–	–	7,000	3.0
Ong Tai Tiong Desmond	–	–	–	–	– <sup>(5)</sup>	–	–	–
Lim Hui Min John	–	–	–	–	– <sup>(5)</sup>	–	–	–
<b>Substantial Shareholders other than Directors</b>								
Fortsmith Investments Limited <sup>(2)(4)</sup>	122,500	70.0	–	–	122,500	52.4	–	–
Lombard Inc. <sup>(3)(4)</sup>	7,000	4.0	–	–	7,000	3.0	–	–
Fivestar Limited <sup>(1)(4)</sup>	45,500	26.0	–	–	45,500	19.4	–	–
Tan Geok Bee <sup>(1)</sup>	–	–	45,500	26.0	–	–	45,500	19.4
<b>Public (including Reserved shares)</b>	–	–	–	–	59,000	25.2	–	–
<b>TOTAL</b>	<b>175,000</b>	<b>100.0</b>			<b>234,000</b>	<b>100.0</b>		

#### Notes:-

- (1) Fivestar Limited ("Fivestar") is an investment holding company incorporated in Samoa and whose shareholders and directors are Dr Lim Seck Yeow (our non-executive Chairman) and Tan Geok Bee, each holding 50% of the issued share capital of Fivestar. As such, each of Dr Lim Seck Yeow and Tan Geok Bee are deemed interested in all the Shares held by Fivestar.
- (2) Fortsmith Investments Limited ("Fortsmith") is an investment holding company incorporated in Samoa and whose sole shareholder and director is Sun Bowen (our Managing Director). As such, Sun Bowen is deemed interested in all the Shares held by Fortsmith.
- (3) Lombard Inc. ("Lombard") is an investment holding company incorporated in Samoa and whose sole shareholder and director is Bao Hongwei (our Executive Director). As such, Bao Hongwei is deemed interested in all the Shares held by Lombard.
- (4) Between October 2004 and March 2005, our non-executive Chairman Dr Lim Seck Yeow and Tan Geok Bee advanced loans amounting to \$1,110,978 and \$1,098,569 respectively to our Company for use as working capital and to finance the acquisition of Yinguang Technology by our Company. The loans are interest-free, unsecured and have no fixed term of repayment. On 22 March 2005, we capitalised \$1,999,998 of the loan amount to Dr Lim Seck Yeow and Tan Geok Bee by issuing 1,999,998 fully paid new ordinary shares of \$1.00 each at par to Dr Lim Seck Yeow and Tan Geok Bee. As agreed between the parties, 1,400,000 and 80,000 ordinary shares of \$1.00 each out of the 1,999,998 ordinary shares of \$1.00 each were transferred to Fortsmith and Lombard respectively with nil consideration. For further details, please refer to the section entitled "Restructuring Exercise" in this Prospectus.
- (5) Our Independent Directors, Ong Tai Tiong Desmond and Lim Hui Min John, will each be offered 60,000 Reserved Shares, at the Issue Price pursuant to the Invitation in recognition of their future contribution to our Group. In the event that they accept any or all of the Reserved Shares offered to them, they may dispose of or transfer any or all of their Reserved Shares after the admission of our Company to the Official List of the SGX-ST.

The Shares held by our Directors and Substantial Shareholders do not carry different voting rights from the New Shares which are the subject of the Invitation.

There is no known arrangement, the operation of which may at a subsequent date, result in a change in the control of our Company.

## GENERAL INFORMATION ON OUR GROUP

### SIGNIFICANT CHANGES IN PERCENTAGE OWNERSHIP

The significant changes in the percentage of ownership of our Company held by our Directors and our Substantial Shareholders since the date of incorporation and up to the Latest Practicable Date are as follows:-

	As at incorporation		As at 22 March 2005 <sup>(6)</sup>		As at 23 March 2005 <sup>(7)</sup>		As at 24 February 2006 <sup>(8)</sup>	
	Direct Interest No. of ordinary shares of \$1.00 each ('000)	Deemed Interest No. of ordinary shares of \$1.00 each ('000)	Direct Interest No. of ordinary shares of \$1.00 each ('000)	Deemed Interest No. of ordinary shares of \$1.00 each ('000)	Direct Interest No. of ordinary shares of \$1.00 each ('000)	Deemed Interest No. of ordinary shares of \$1.00 each ('000)	Direct Interest No. of Shares ('000)	Deemed Interest No. of Shares ('000)
<b>Directors</b>								
Dr Lim Seck Yeow <sup>(1)</sup>	- <sup>(6)</sup>	50	1,000	-	-	520	-	45,500
Sun Bowen <sup>(2)</sup>	-	-	-	-	-	1,400	-	122,500
Bao Hongwei <sup>(3)</sup>	-	-	-	-	-	80	-	7,000
<b>Substantial Shareholders</b>								
Fortsmith Investments Limited <sup>(2)(4)</sup>	-	-	-	-	1,400	-	122,500	-
Lombard Inc. <sup>(3)(4)</sup>	-	-	-	-	80	-	7,000	-
Fivestar Limited <sup>(1)(4)</sup>	-	-	-	-	520	-	45,500	-
Tan Geok Bee <sup>(1)</sup>	- <sup>(6)</sup>	50	1,000	-	-	520	-	45,500
<b>Total</b>	- <sup>(6)</sup>	100	2,000	100	2,000	100	175,000	100

(1) – (4) Please see notes (1) to (4) to the shareholdings table in the section entitled “General Information on Our Group – Shareholders” in this Prospectus.

(5) The Company’s issued and paid-up share capital comprising 2 ordinary shares of par value \$1.00 each, with Dr Lim Seck Yeow and Tan Geok Bee each holding 1 ordinary share.

(6) Pursuant to the Loan Capitalisation, the details of which are described in the section entitled “General Information on Our Group – Shareholders” in this Prospectus.

(7) Pursuant to the transfer of shares as described in the section entitled “General Information on Our Group – Shareholders” in this Prospectus.

(8) Pursuant to the Bonus Issue carried out on 15 June 2005 and the Sub-division carried out on 23 February 2006 as described in the section entitled “General Information on Our Group – Share Capital” in this Prospectus.

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## GENERAL INFORMATION ON OUR GROUP

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### MORATORIUM

To demonstrate their commitment to our Group, our existing Shareholders, Fortsmith Investments Limited, Fivestar Limited and Lombard Inc., who will in aggregate hold 175,000,000 Shares in our Company, representing approximately 74.8% of our Company's enlarged issued share capital after the Invitation, have undertaken not to dispose of or transfer any part of their direct and indirect interests in our Company for a period of six months commencing from the date of listing of our Company on the Official List of the SGX-ST (the "Date of Listing").

Our Managing Director, Sun Bowen, who owns the entire issued share capital of Fortsmith Investments Limited, have undertaken not to transfer, assign or dispose of any part of his shareholding interests in Fortsmith Investments Limited for a period of six months commencing from the Date of Listing.

Our non-executive Chairman, Dr Lim Seck Yeow, and Tan Geok Bee, who together own the entire issued share capital of Fivestar Limited, have each undertaken not to transfer, assign or dispose of any part of their respective shareholding interests in Fivestar Limited for a period of six months commencing from the Date of Listing.

Our Executive Director, Bao Hongwei, who owns the entire issued share capital of Lombard Inc., has undertaken not to transfer, assign or dispose of any part of his shareholding interests in Lombard Inc. for a period of six months commencing from the Date of Listing.

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## RESTRUCTURING EXERCISE

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To rationalise our Group's corporate structure in connection with the Invitation, the following restructuring steps were taken:-

**(a) Incorporation of our Company**

In preparation for our listing on the SGX-ST, our Company was incorporated on 12 October 2004 under the name of "Fabchem China Pte. Ltd." in accordance with the Act as a private limited company with an authorised share capital of \$10,000,000 and initial paid up capital of \$2 comprising two ordinary shares of \$1.00 each at par. The principal activity of our Company is that of an investment holding company. On 23 February 2006, our Company was converted into a public company and changed its name to "Fabchem China Limited".

**(b) Acquisition by Yinguang Technology of our business**

Yinguang Chemical is a 61.24% owned subsidiary of Yinsheng Investments. Please see the section entitled "Interested Person Transactions – Past Transactions" in this Prospectus for further details on the shareholders of Yinguang Chemical.

Yinsheng Investments is a PRC conglomerate with businesses in the manufacture and sale of embroidery products such as bedsheets, blankets and curtains, trading, import and export business and the manufacture of magnesium products. Sun Qiang (who is the son of our Managing Director and Controlling Shareholder, Sun Bowen), has a 54.3% interest in the equity capital of Yinsheng Investments and is a non-executive director of Yinsheng Investments. The holders of the remaining 45.7% equity interests in Yinsheng Investments are PRC third parties who are not related to our Directors or Controlling Shareholders.

Yinguang Chemical conducted the business of our Group prior to the Restructuring Exercise. By a business and assets transfer agreement dated 6 November 2004 and a supplementary agreement dated 8 April 2005 between Yinguang Chemical and Yinguang Technology, Yinguang Technology acquired the business and assets of Yinguang Chemical relating to the production and sales of commercial explosives (the "Business"), with effect from 1 November 2004. The consideration of approximately RMB 6 million for the assets relating to the Business, which was settled in cash by February 2005, was determined in accordance with an independent valuation prepared for such assets in accordance with PRC legal requirements for our acquisition of Yinguang Technology (the "Assets Valuation").

On the completion of the said transfer, the only business activity which Yinguang Chemical would be engaged in is investment holding.

**(c) Our Company's acquisition of Yinguang Technology**

By an agreement for acquisition of equity interests dated 16 October 2004 and a supplementary agreement dated 8 April 2005, our Company acquired all of the equity interest in Yinguang Technology with effect from 1 November 2004 for a purchase price of \$2.037 million. Our purchase consideration was based on the Assets Valuation and the cash balance in Yinguang Technology after the completion of the abovementioned restructuring step (b). As one of the conditions precedent to the completion of the acquisition of Yinguang Technology by our Company, Yinguang Technology was established on 5 November 2004 as a domestic limited liability company in the PRC by PRC individuals, namely our Directors Sun Bowen and Bao Hongwei, our Executive Officers Yang Xingdong and Chen Hongyu and another PRC individual Wong Jian. It was established to acquire the Business as described under (b) above. Upon our Company's acquisition, Yinguang Technology became a wholly-owned subsidiary of our Company and was converted to a WOFE on 23 November 2004.

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## RESTRUCTURING EXERCISE

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**(d) Capitalisation of loan payable to Dr Lim Seck Yeow and Tan Geok Bee**

Between October 2004 and March 2005, our non-executive Chairman, Dr Lim Seck Yeow, and our Controlling Shareholder, Tan Geok Bee, advanced loans amounting to \$1,110,978 and \$1,098,569 respectively to our Company to finance the acquisition of Yinguang Technology by our Company as described in paragraph (c) above. The loans were interest-free, unsecured and have no fixed term of repayment.

On 22 March 2005, we capitalised \$1,999,998 of the said loan owing to Dr Lim Seck Yeow and Tan Geok Bee by issuing 1,999,998 fully paid new ordinary shares of \$1.00 each at par in their favour. Please see the section entitled “General Information on our Group – Shareholders” in this Prospectus for more details.

**(e) Transfer of shares from Dr Lim Seck Yeow and Tan Geok Bee to Fortsmith Investments Limited, Lombard Inc. and Fivestar Limited**

On 23 March 2005, Dr Lim Seck Yeow transferred 740,000 ordinary shares of \$1.00 each to Fortsmith Investments Limited at nil consideration; on the same day, Dr Lim Seck Yeow transferred 260,000 ordinary shares of \$1.00 each to Fivestar Limited at par.

On 23 March 2005, Tan Geok Bee transferred 660,000 and 80,000 shares of \$1.00 each to Fortsmith Investments Limited and Lombard Inc. respectively at nil consideration; on the same day, Tan Geok Bee transferred 260,000 ordinary shares of \$1.00 each to Fivestar Limited at par.

Please see the section entitled “General Information on our Group – Shareholders” in this Prospectus for details of the above companies.



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## GROUP STRUCTURE

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Our Group structure following the Restructuring Exercise but before the Invitation is as follows:



<b>Name of subsidiary</b>	<b>Date and place of incorporation</b>	<b>Principal business and principal place of business</b>	<b>Registered Capital</b>	<b>Percentage owned</b>
Shandong Yinguang Technology Co., Ltd	5 November 2004, PRC	Manufacture and sale of industrial detonating cord, tube charge, booster, plastic nonel tube and nonel detonator/ PRC	RMB35,000,000	100%

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## BUSINESS

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### HISTORY<sup>(1)</sup>

Our origins may be traced to 1979 when the Shandong Province Planning Committee (山东省计划委员会) established Shandong Feixian Chemical Factory (“Feixian Chemical Factory”) (山东省费县化工厂) as a state owned enterprise to undertake the production of detonating cords with a production capacity of up to 0.5 million metres per annum, mainly for sales to customers in the Shandong Province. Our Managing Director, Sun Bowen, was employed as a technician at Feixian Chemical Factory in July 1980, and was promoted to a factory manager in 1983.

In March 1993, Feixian Chemical Factory and several of its employees established Yinguang Chemical as a company minority-owned by its employees (募集方式), to undertake the commercial explosives business activities of Feixian Chemical Factory. Feixian Chemical Factory became the holding company of Yinguang Chemical. Sun Bowen continued to spearhead and oversee the business operations of Yinguang Chemical. In the same year, Yinguang Chemical expanded its range of detonating cords and increased its production capacity for detonating cords to five million metres per annum.

In December 1997, Feixian Chemical Factory was converted into a limited liability company under the PRC companies law and was renamed Yinguang Chemical Group as a result of the PRC government’s policy at that time to convert factories in the PRC into limited liability companies.

Since 1995, Yinguang Chemical had placed emphasis on developmental activities to manufacture new products and to improve the quality of its products to meet international requirements. In 1998, Yinguang Chemical widened its range of products by commencing the production of boosters and nonel tubes. As a result of its developmental activities and product quality, Yinguang Chemical was able to increase its sales and made its first foray overseas by selling its products to companies located in countries such as the United States and Australia in 1998. To meet the increase in demand for boosters, Yinguang Chemical increased its boosters production capacity from 500 tonnes per annum in 1998 to 5,500 tonnes per annum in 1999.

In March 2000, Yinguang Chemical Group was recognised as an advanced and high technology enterprise (国家级重点高新技术企业) by the Ministry of Science and Technology of PRC (中华人民共和国科学技术部). In May of the same year, Yinguang Chemical was awarded ISO9002:1994 certification for Quality System. This has since been replaced by ISO9001:2000 certification for Quality Management System, which is a testament to the quality of our products and production process.

In 2001, in order to expand the range of explosive products, Yinguang Chemical established nonel detonator production facilities with a production capacity of approximately 5 million pieces per annum and commenced the production of nonel detonators.

In 2003, Yinguang Chemical expanded its range of detonating cords and production capacity to up to 50 million metres of detonating cords per annum.

As part of the PRC government’s policy to privatise certain industries in the PRC, the PRC government divested all its interests in Yinguang Chemical Group in October 2003, and these interests were acquired by 41 individuals who were the employees of Yinguang Chemical Group at that time. The consideration for the disposal was approximately RMB 5.3 million based on the audited net asset value of the company as at 30 September 2003. The consideration was paid by the 41 individuals in cash in October 2003. The transfer resulted in our Managing Director, Sun Bowen, becoming the majority shareholder of Yinguang Chemical Group.

Yinguang Chemical Group remained as the holding company of Yinguang Chemical until May 2004 when Yinguang Chemical Group undertook a restructuring exercise and transferred all its interests in Yinguang Chemical to Yinsheng Investments. The shareholders of Yinsheng Investments at the time of its establishment were Sun Qiang, Ji Chuanyuan, Qi Meili, Wang Jiaqi and Nie Xiaoying.

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<sup>(1)</sup> As we only acquired Yinguang Technology in October 2004, references are made to the history of Yinguang Chemical and Yinguang Chemical Group to trace the development of our business.

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In February 2004, Yinguang Chemical received ISO9001:2000 certification for quality management system, ISO14001:1996 certification for environmental management system and OHSAS18001:1999 certification for occupational health and safety management system issued by the China Certification Centre for Quality Mark. These certifications allowed us to further strengthen our enterprise image and brands. These certifications were transferred to Yinguang Technology in April 2005.

On 5 November 2004, Yinguang Technology was established to undertake the business and assets of Yinguang Chemical in preparation for the public listing of our Company. On 6 November 2004, Yinguang Technology and Yinguang Chemical entered into a business and assets transfer agreement whereby Yinguang Technology acquired all the business and assets (excluding the land and building) relating to the explosives business of Yinguang Chemical. Yinguang Technology was subsequently converted to a WOFE on 23 November 2004 and our Company completed the acquisition of the entire interests in Yinguang Technology on the same day. Please refer to the section entitled “Restructuring Exercise” in this Prospectus for further details of the transaction.

Since the establishment of our business in 1979, we have grown significantly. We now produce commercial explosives for different usage in various industries and our customers have also expanded from companies located in the Shandong Province to include those located overseas in countries such as the United States, Australia and South Africa. Based on the PRC Explosives Industry Report (2004年全国民用爆破器材行业生产经营情况) jointly issued by the Commission and the China Explosive Material Trade Association (中国爆破器材行业协会) in May 2005<sup>(1)</sup>, we are the PRC manufacturer with the largest export sales of commercial explosives and also the PRC manufacturer with the largest sales volume of boosters in 2004. As such, our Directors believe that our Group was one of the market leaders in the PRC commercial explosives industry in 2004.

Note:-

- (1) Report titled “PRC Explosives Industry Report (2004年全国民用爆破器材行业生产经营情况)” jointly issued by the Commission and the China Explosive Material Trade Association (中国爆破器材行业协会) (collectively “Authors”). The report appears on the internet website of the Commission (<http://www.costind.gov.cn/n435777/n435943/n435951/n436021/24520.html>) which was accessed on 12 October 2005. The Authors have not consented to the inclusion of the above statement and is therefore not liable for the above statement under sections 253 and 254 of the Securities and Futures Act. The Company has included the above statement in its proper form and context in this Prospectus and has not verified the accuracy of the contents of the above statement.

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## BUSINESS

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### BUSINESS

We are principally engaged in the production and sales of explosives, comprising explosive devices, initiators and detonators, under both our own brand name and those of third parties. Our products are sold for commercial use. We carry out the design, development and manufacturing of our products. Our products are mainly used in the mining, energy exploration and infrastructure construction industries such as coal mining, hydroelectric construction, oil exploration, road and railway construction and large construction projects such as the Three Gorges Dam. Our PRC customers are located in various major provinces in the PRC such as Henan, Shanxi, Zhejiang and in major cities such as Beijing and Shanghai and they include mining companies, construction companies, transport companies and local distributors.

Our products are also exported directly, via export agents approved by the PRC government, to more than 10 countries such as the USA, Australia and South Africa. We also sell our products to export distributors in the PRC, which in turn sells to its end customers in Vietnam, Mongolia and Thailand. For export sales, our customers comprise overseas distributors, end-users such as mining companies, and export distributors in the PRC which in turn export our products to their customers overseas. Unlike the sales of our products within the PRC, the pricing of our products to the overseas customers are not subject to any restrictions and are based on factors such as the size of the orders, the customers and market demand.

In addition to supplying our customers with our products, we also provide after-sales services such as providing technical assistance and assistance in detonating activities to our customers. These services are provided as part of the supply of our products to our customers.

Our products can be used in conjunction with each other or separately depending on the preference and requirements of our customers. Our products are categorised mainly as follows:-

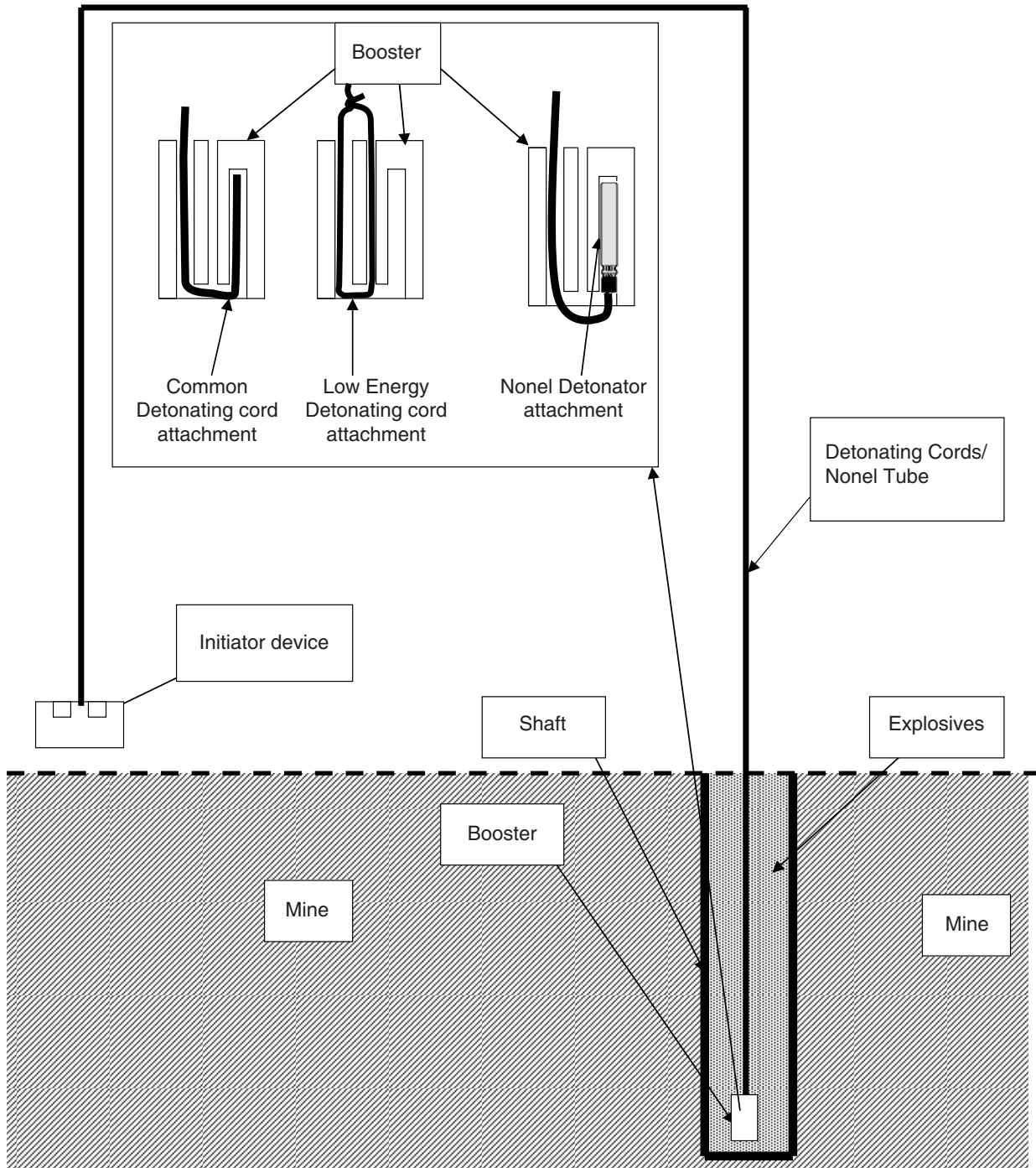
- (a) Explosive devices such as boosters (起爆具) and tube charges (爆裂管);
- (b) Industrial fuse and initiating explosive devices such as detonating cords (导爆索) and nonel tubes (导爆管);
- (c) Industrial detonators such as nonel detonators (导爆管雷管) and piston nonel detonators (活塞式导爆管雷管).

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The following diagram illustrates the usage of our products in a simplified explosive set-up:-



Note: The diagram and the products shown above are not drawn to scale.

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Detailed descriptions of our products are as follows:-

(a) **Explosive devices**

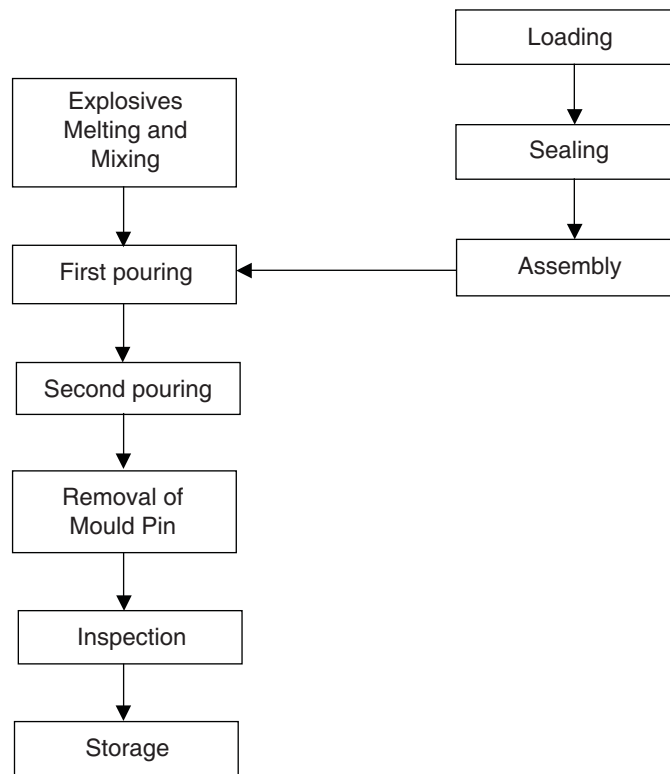
We manufacture explosive devices such as boosters and tube charges that are used to enhance the power of the explosions.

Boosters

We manufacture a series of boosters that are designed to detonate blasting agents in the engineering and mining industries. They can be initiated by a detonating cord and/or nonel detonators. Boosters are cylindrical and longitudinal, perforated to facilitate their connection with a detonating cord or detonators. The advantages of boosters are that they optimise the initiation of blasting agents, can be fitted and used perfectly with a detonating cord or detonators, have high resistance to extreme temperatures, have excellent water and oil resistance and are easy to handle. Our boosters are stored in dry and ventilated places at room temperature not exceeding 40°C and have an estimated storage life of five years.

Our boosters have been tested and certified by UTEC, an authorised inspection institute for initiating explosive devices based in the USA. Based on the results of UTEC's tests, our Directors believe that the quality of our boosters are comparable to international brands. Our customers for boosters are located in countries such as the PRC, United States, Australia, Mongolia, the United Kingdom, Thailand and South Africa.

The following flowchart shows the simplified production process of our boosters:-



The manufacturing of boosters commences with the loading of PETN into empty plastic bottles. A piece of sponge is inserted into the plastic bottle and the bottle is inverted to ensure that there is no leakage of PETN. Those bottles that are properly sealed are transferred to the next stage of the production process. At the next stage of production, the bottles filled with PETN are sealed with plastic. The bottles which are not properly sealed are disposed of. The PETN bottles will then be inserted into booster casings for the explosives melting and mixing stage.

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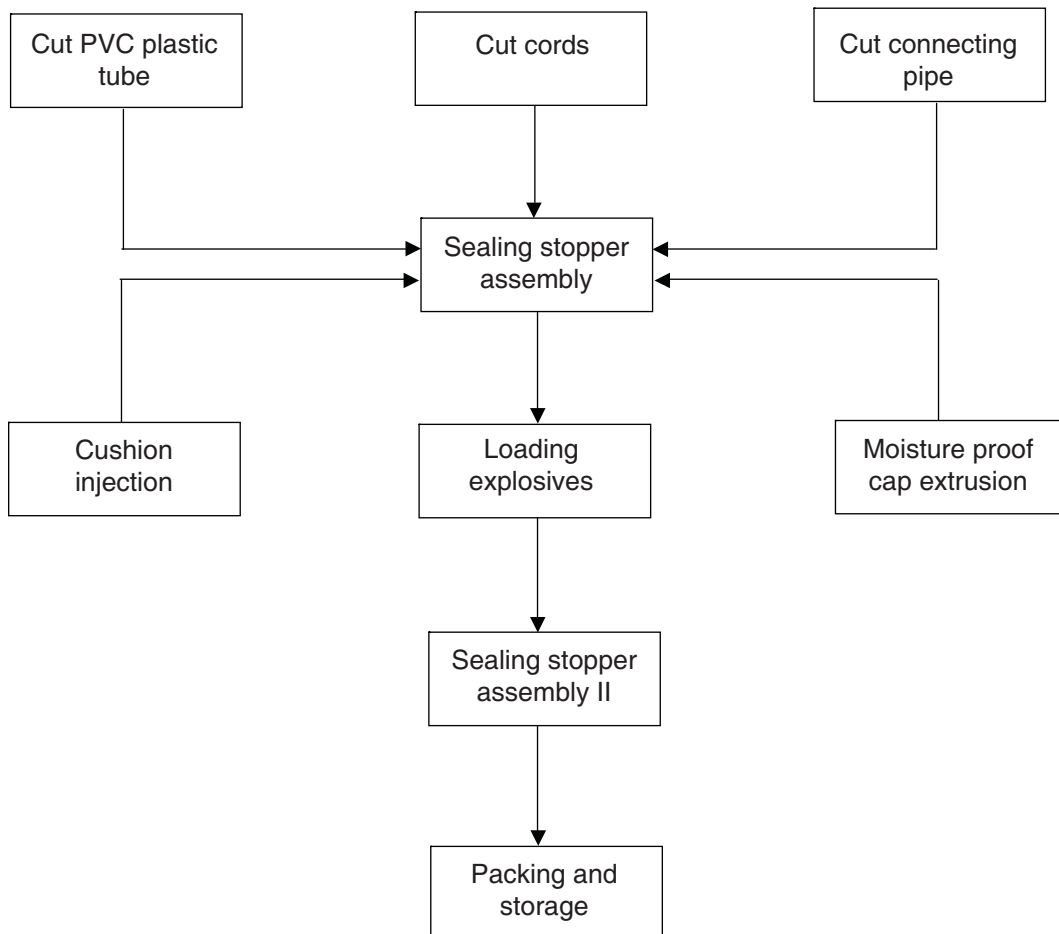
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At the explosives melting and mixing stage, TNT and RDX are transported in special cases to the melting factory. At the melting factory, the TNT and RDX are checked to see if there are any impurities. First, TNT is slowly poured into the melting pot. RDX is then added slowly into the pot and the mixture is mixed well. Thereafter, the mixture is kept in a heat preservation container for the next production stage. The mixture of explosive liquid is then poured into the booster casing. After the first pouring, a cover is placed on the container and the explosive liquid is allowed to cool. When the explosive liquid is sufficiently cooled, the cover is removed and more explosive liquid is poured into the booster casing. After the cover is placed on the booster casing, the boosters are placed on shelves at an inclined position and are then delivered to a cooling area. The pin moulds in the boosters are removed so that the holes in the boosters, for insertion of detonating cords, are clear. After the pin moulds are removed, the boosters are packed in cases for inspection. The boosters are cooled for at least eight hours before they are inspected by our staff who will issue quality certification for cases that pass the inspection procedure. The cases are then transported to the warehouse for storage.

### Tube Charge

We manufacture tube charge that is suitable for use in controlled detonations such as the shaping of decorative stone materials including granite and marble and building materials such as large stone blocks. It is also commonly used in stone quarry detonations. The tube charge is usually connected to detonating cords and is inserted into crevices in preparation for detonations. The tube charge is usually stored in a dry and ventilated environment at room temperature not exceeding 40°C and has an estimated storage life of one year.

The following flowchart shows the simplified production process of our tube charge:-



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The PVC plastic tube which is used to contain the explosives and the connecting pipes are cut to the desired length. Polyethylene is then moulded to manufacture the moisture proof cap and cushion. Detonating cords are cut to the desired length and are then placed at the designated areas. At the sealing stopper stage of production, the cut detonating cords of various lengths are threaded through a stopper with the cord ends exposed. The stopper and the cord ends are then pressed to seal the ends. The explosives are then loaded into the PVC plastic tubes and the plastic tubes are weighed to ensure that the desired amount of explosives are loaded into the tubes. At the second stage of assembly of sealing stopper, glue is applied to the ends of the detonating cords and the ends are covered with a moisture proof cap. The tube charge is then labelled. Thereafter the tube charges are packed into a plastic bag which is sealed and then packed into corrugated paper boxes, enclosed with product instructions and quality certifications. The boxes are delivered to warehouses after the said quality certifications are issued by our technical inspection staff.

(b) **Industrial Fuse and Initiating Explosive Devices**

We manufacture industrial fuse and initiating explosive devices such as detonating cords and nonel tubes.

Detonating Cords

A detonating cord, which is a form of initiator, consists of a continuous explosive core containing PETN or RDX which is wrapped with polyester film. It is then enclosed in a tubular cover of coloured plastic, resulting in a strong flexible cord which is waterproof and light in weight. It may also be wrapped in a cotton cover, depending on its usage and the requirements of the customer. Generally, a detonating cord has a detonating velocity of approximately 6,000 m/s.

We manufacture various kinds of detonating cords such as the common detonating cord, low energy detonating cord, coal mine detonating cord and well-perforated detonating cord for various uses in different industries. The detonating cord may be used in, *inter alia*, surface blasting as an initiator of detonators or for pre-splitting and cutting of granite in the mining industry, engineering projects, oil exploration or coal mining. We also manufacture flexible detonating cords that will not recoil, for use in cold weather. The main advantages of a detonating cord are that it is versatile and inexpensive. The detonating cord is usually stored in a dry and well-ventilated room with room temperature of not more than 40°C and has an estimated storage life of five years, except for the coal mine detonating cord which has an estimated storage life of two years.

The various kinds of detonating cords are differentiated by differing explosive capacities which in turn determines the purpose for which they are used.

Our customers for detonating cords are located in countries such as the PRC, Australia, Vietnam, Kazakhstan and South Africa.

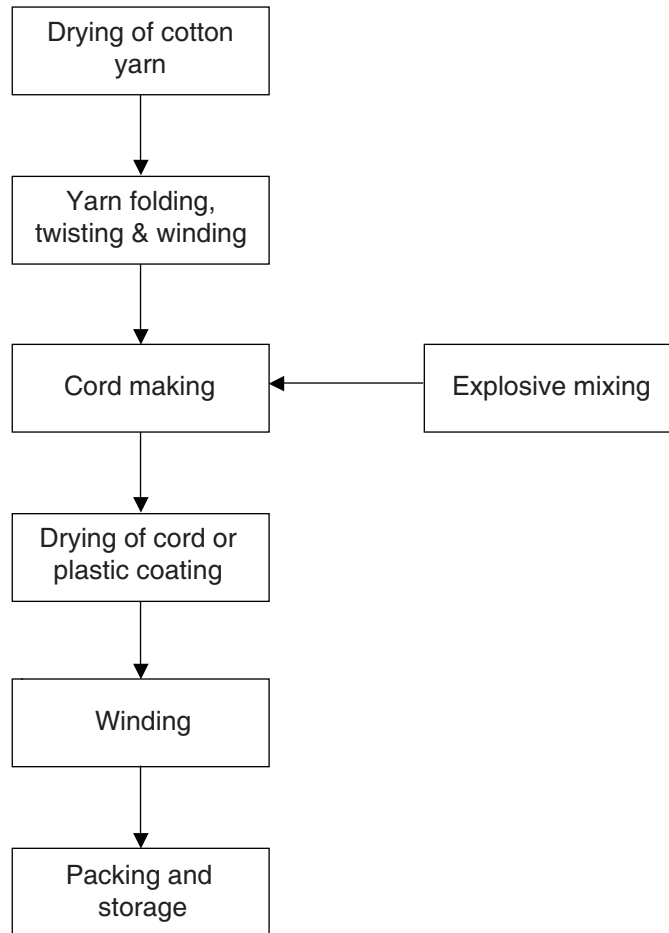


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The following chart shows the simplified production process for our detonating cords:-



The cotton yarn which will be used to wrap the polyester film is laid, heated and dried for between 32 to 56 hours on the drying rack. The dried cotton yarn is then folded, twisted and wound by machines and spooling rack before being delivered to our cord-making factories.

At the factory where explosives are mixed, the staff will check for static electricity before commencing the mixing of explosives. The explosives are mixed on a mixing platform. After mixing, six samples obtained from different parts of the mixture are tested for their density, which must be within the prescribed range. If the density is outside of the prescribed range, the mixture will be re-mixed. Different mixing ratios are required under different conditions such as in dry weather or when there is higher moisture content in the air. The explosives mixtures that have passed the density test will be loaded into plastic drums and placed in special cases, which are then delivered to our cord-making factories.

At the cord-making factory, the explosives mixture is wrapped with polyester film, which is in turn wrapped with either cotton yarn or plastic to produce cords using automated cord making machines in fortified rooms. For safety reasons, our staff monitor and controls the wrapping of the explosives through monitors outside the fortified rooms. During the loading process, if any abnormalities occur, the machines will be shut down immediately. A section of the cotton or plastic cord is cut and the amount of the explosives is measured. Adjustments to the amount of explosives in the cord will be made if necessary. The explosives-loaded cotton or plastic cords are usually taken off the cord-making machines every two hours.

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The next stage of the production process differs according to the coating of the outer layer of the detonating cords. For cotton detonating cords, the explosives-loaded cotton cords are delivered to a drying room where the cords are placed on a drying rack to dry. For plastic detonating cords, the explosives-loaded cords are coated with a layer of colourful plastic.

A cord wheel is used to wind the cotton or plastic cords. Our staff constantly monitor and check the cords during the winding process. Any section of the cords that do not meet our standards will be cut off and the remaining cord is then connected with a tube or tape. The coils of cord are then delivered to the packing room.

In the packing room, the two ends of the cords are covered with aluminium moisture-proof caps. Reels of cords are packaged in plastic bags which are then sealed and thereafter packed into corrugated paper boxes which are labeled with instructions and quality certification. The paper boxes are only delivered into the warehouses after the said certifications from inspection and notices from production are issued.

### Nonel Tubes

We manufacture nonel tubes such as plastic nonel tubes and high strength nonel tubes, for deep-hole blasting, ladder blasting and net blasting in industries such as mining, hydroelectric, road and railway construction. The various kinds of nonel tubes differ from one another in terms of degree of resistance to oil and acid, elasticity, ability to withstand pressure, uses and environment under which they are used. For example, high strength nonel tubes are used for detonations of rocky surfaces. A nonel tube is a single, double or triple layered plastic tube coated internally with explosive chemicals and is usually connected to a nonel detonator to transmit a shock wave to the nonel detonator with minimal noise and cord movement. One of the differences between a nonel tube and a detonating cord is that a nonel tube remains intact after it has been used for a detonation whereas a detonating cord would explode and be destroyed in a detonation. The advantage of nonel tubes is that they are safe to use in environments where there are high electric or static charges due to its static-electricity resistant property and ability to dissipate electric charges, and it cannot be accidentally initiated by shock, friction or heat. They also reduce air blasts or ground vibrations. Plastic nonel tubes are commonly used for “low-speed” detonations with detonating velocities of between 1,650m/s and 1,950 m/s. These nonel tubes are stored in dry and ventilated places and have an estimated storage life of two years.

The high strength nonel tube produced by us was developed from plastic nonel tubes by our product development team and is patented by us. Please refer to the section entitled “Business – Intellectual Property” in this Prospectus for further details. Its uses are similar to plastic nonel tubes but it is more durable and is more elastic than plastic nonel tubes.

Our customers for nonel tubes are located in countries such as the PRC, India and Pakistan.

### (c) ***Industrial Detonator***

We also manufacture industrial detonators such as nonel 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. The nonel detonators are resistant to static-electricity and are able to dissipate electric charges, hence making them safe to use.

A nonel detonator is an agent that is mainly used to initiate explosion either through a booster or directly on the explosives. It allows controlled detonations with delay time ranging from 0.025 seconds to 1 second of an explosive event.

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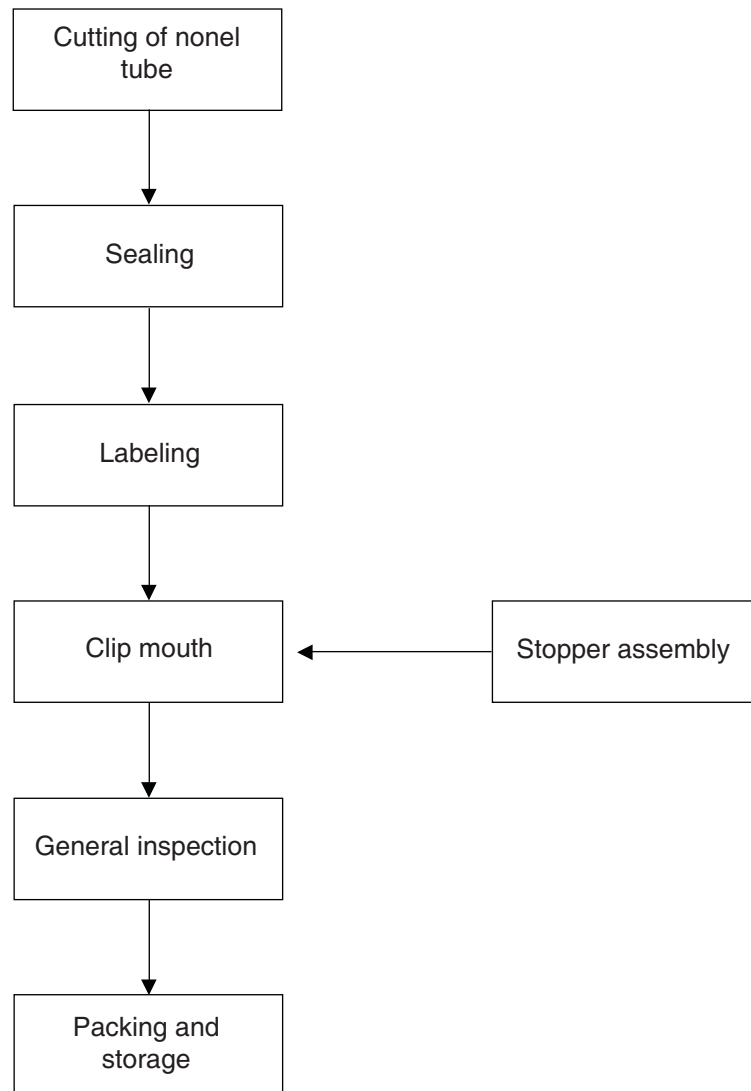
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A piston nonel detonator is a special form of nonel detonator which is environmentally friendly and safe. Its detonating effect is comparable to or better than a normal nonel detonator. The piston nonel detonator is the product of the research collaboration between Yinguang Chemical and the University of Science and Technology of PRC and our Directors are of the opinion that there is considerable potential for this product in the market. It is safer, more resistant to abrasion, more environmentally friendly and costs less to manufacture than a normal nonel detonator. Yinguang Chemical has owned the patent for the piston nonel detonator since July 2003 and pursuant to the Restructuring Exercise, we have acquired the patent rights to the piston nonel detonator and such patent is still in the progress of being transferred to us. Notwithstanding, we have entered into a trial phase for this new product with our customers and so far, we have received favourable feedback from our customers. Please refer to the section entitled "Business – Intellectual Property" in this Prospectus for more information on our patents rights and collaboration agreements.

Our customers for our industrial detonators are located in countries such as the PRC, South Africa and Republic of Kirghizia.

The following flowchart shows the simplified production process of our nonel detonator:-



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The nonel tubes, which are in reels, are taken from the warehouse and are inspected before they are used for the production of nonel detonators. The reels of nonel tubes are placed on a discharging rack and the nonel tubes are cut according to length requirements. The nonel tubes are then inspected to ascertain that the explosives content in the nonel tubes is evenly distributed. The nonel tubes which fail the inspection are removed and replaced.

The ends of the nonel tubes are then sealed by melting and clamping the ends of the nonel tubes with special clamps before they are cooled. If the ends are not sealed properly, the melting and sealing processes are repeated. The nonel tubes that pass the inspection are labeled at their sealed ends.

Rubber stoppers are inspected to ensure that they are in working condition. The stoppers are then inserted into detonators to ensure that the seal can be tightly secured when the plastic nonel tubes are inserted into the detonators.

The detonators with stoppers are then placed in the clipping machine where plastic nonel tubes are then inserted into the stopper and the detonator is tightly sealed. The finished products are then placed in an explosive-proof case and are delivered to the next stage of production.

General inspection is conducted, for example through checking the appearance of the products. The products that fail the inspection will be disposed of appropriately. Those products that passed the inspection are packed in plastic bags which are then sealed. The plastic bags of detonating cords are then packed into corrugated paper boxes which are labeled with instructions and quality certification. The paper boxes are only delivered to warehouses after the said certifications from inspection and notices from production are issued.

### QUALITY ASSURANCE

We place a very strong emphasis on the final quality of our products and have established and implemented a quality assurance system to ensure that our employees pay particular attention towards the quality of our products. Our quality assurance department is responsible for ensuring that our products comply with our stringent quality requirements as well as the requirements of PRC regulatory bodies and our customers. As at the Latest Practicable Date, we have a total of 36 quality assurance personnel in our quality assurance department.

Our quality assurance programme encompasses stringent quality control carried out consistently at every stage of our production processes, from raw materials procurement to production to inspection of final products:-

(a) *Incoming quality control*

Our raw materials comprise mainly various explosive chemicals, cotton yarn and plastic. All the suppliers of explosive chemicals are required to be licenced by the PRC regulatory bodies to supply such chemicals. In order to ensure delivery of products of the highest quality to our customers, we place strong emphasis on the quality of our raw materials. For example, in our procurement of raw materials, the selection of suppliers is carried out according to our strict internal quality evaluation system such as obtaining raw materials only from suppliers who are ISO9000 certified. The selection of our key raw materials is conducted by our quality assurance personnel, who will conduct sample physical inspections such as appearance checks and random in-house laboratory tests on the raw materials when they are delivered to our production facilities in accordance with ISO9001 procedures, to ensure that they meet our requirements. From time to time, we also send samples of our raw materials for detailed tests by external laboratories which we are unable to conduct in-house.

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Raw materials that fail to meet our quality standards will be returned to the supplier who will re-supply the raw materials to us. The raw materials that meet our quality standards will be stored in specially designated zones in our warehouses to enable easy inventory tracking.

(b) *Production quality control*

Our quality assurance team conducts regular sampling and quality control tests at every stage of our production process to ensure that our products meet our internal requirements as well as the requirements of our customers and the PRC regulatory bodies. Such tests include physical checks on the appearance of our products as well as laboratory tests.

In addition, we have established procedures and implemented rules for various stages and aspects of our production processes. We have established quality control points at key stages of our production process and our staff carry out their roles strictly in accordance with the procedures and rules to ensure that products that do not meet our requirements are removed from the production process. The production team leader at each stage of the production process is responsible for ensuring that our quality assurance procedures have been complied with and any problems that may occur during the production process are resolved promptly so that production efficiency can be maintained. We also conduct staff training on the quality assurance procedures and educate our staff on the importance and need to adhere strictly to the quality assurance procedures on a regular basis.

(c) *Outgoing quality control*

All our products undergo final quality inspection in accordance with the applicable regulatory standards and guidelines immediately after they are manufactured and during packaging to ensure that all our products and packaging meet our quality standards. The final quality inspection process includes appearance and laboratory testing, test explosions and functional tests. Some of our customers also conduct tests such as pressure tests on our products. Any batch of products whose samples failed our final quality inspection would be appropriately disposed or rectified where possible. Our finished products are stored in our warehouses before delivery to customers and ports and our quality assurance personnel ensure that our products are properly stored to prevent damage.

We have also instituted an after-sales service system which includes the provision of technical services to maintain close contact with our customers to receive direct feedback on the quality standards of our products. Our quality assurance department will then collate the feedback received from our customers and then identify the problem, if any. Thereafter, we will analyse the cause of the problem and propose remedial actions to rectify the problem or enhance our existing production processes to prevent a repeat of the problem.

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### AWARDS AND CERTIFICATIONS

Our products have received the following awards or certifications from relevant authorities in the PRC as set out below:-

Product	Awards	Certification authority	Date of Certification
Low energy detonating cord	State New Product Award 国家级新产品	Ministry of Science and Technology of PRC	May 1995
Low energy detonating cord	Technology Improvement First Degree Award of Science, Technology and Industry for National Defense of Shandong Province 山东省国防科技工业科技进步一等奖	Shandong Commission of Science and Technology	August 1996
Low energy detonating cord	Excellent New Product Award of Shandong Province 山东省优秀新产品	Shandong Economy Committee	July 1997
Tube charge	State New Product Award 国家级新产品	Ministry of Science and Technology of PRC	May 1995
Tube charge	Xin Huo Plan Second Degree Award of Shandong Province 山东省星火计划二等奖	The Office of Science and Technology of Shandong	April 1995
Tube charge	Excellent New Product Award of Shandong Province 山东省优秀新产品	Shandong Economy Committee	July 1997
Booster	State Important New Product Award 国家级重点新产品	Ministry of Science and Technology of PRC	August 1999
Booster	Technology Improvement First Degree Award of Mechanical Industry of Shandong Province 山东省机械工业科技进步一等奖	The Department of Mechanical Industry of Shandong	August 2001
Double High Strength Nonel Tube	Technology Improvement Second Degree Award of the Office of China Nonferrous Metals Industry 国家有色金属工业局科技进步二等奖	The Office of China Nonferrous Metals Industry	July 1999

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Product	Awards	Certification authority	Date of Certification
Double High Strength Nonel Tube	State Important New Product Award 国家级重点新产品	Ministry of Science and Technology of PRC	August 1999
Double High Strength Nonel Tube	Technology Improvement Second Degree Award of Mechanical Industry of Shandong Province 山东省机械工业科技进步二等奖	The Department of Mechanical Industry of Shandong	August 2001

In February 2004, we received ISO9001:2000 certification for quality management system, ISO14001:1996 certification for environmental management system and OHSAS18001:1999 certification for occupational health and safety management system issued by the China Certification Centre for Quality Marks. These certifications are testament to our quality management system, environmental management system and occupational health and safety management system. Our production facilities adopt a total quality management system in accordance with standards required under the certifications in order to maintain high quality standards relating to our production process and consistency in the quality of our products. Our boosters are also tested and certified by UTEC, an authorised inspection institute for initiating explosive devices based in the USA. Based on the results of UTEC's tests, our Directors believe that the quality of our boosters are comparable to international brands. We are also a member of the CEMTA (China Explosive Material Trade Association) (中国民爆器材行业协会), a national trade association in the PRC that carries out research and studies, promotes and provides services to the various members in the commercial explosive material products industry.

There have been no rejections of our products by our customers or any major incidences of economic losses or human casualties attributable to our defective products for the last three financial years ended 31 March 2005 and up to the Latest Practicable Date. We have not experienced any accident in our production of explosives since we commenced operations.

### SAFETY MEASURES

The safety of our operations is of paramount importance to us. We have a manual to guide our staff on the important safety procedures which should be adhered to in the production process. A summary of our safety manual is set out in Appendix 4 of this Prospectus. We have also established a safety department comprising about six staff which is tasked mainly with ensuring compliance with our internal safety measures. The department conducts routine monthly checks on the safety of our production procedures and constantly reviews our safety measures to ensure that they are adequate for our purposes. Our internal auditors will also conduct checks on whether all of the Group's safety measures and procedures are complied with, and such checks will be reported to the Audit Committee and disclosed in our Company's annual report every year.

The safety aspects of our operations and products are vital to our business. The nature of the explosives industry is such that the raw materials and products are easily subject to explosions during the production process, transportation and storage. Our licences to manufacture explosive products may be revoked by the relevant authorities in the event of any explosions at our production or storage facilities, during the transportation of raw materials or during the usage of our products by the end-users. Please refer to the

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section entitled “Risk Factors” in this Prospectus for the relevant risk factor relating to our production process and products. In view of the above reasons, we adopt stringent safety measures at our production facilities as well as during the transportation and storage of our products and raw materials to keep the risks of explosion at the minimum, such as, *inter alia*, the following measures:-

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

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

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

- (b) In addition to the above safety measures, we also comply with the safety regulations promulgated by the Commission, such as the Safety Norms for Designing Civil Explosives Factories (民用爆破器材工厂设计安全规范) and the Regulations on the Administration of Security Technology for Civil Explosives Factories (民用爆破器材工厂安全技术管理规定). Safety regulations such as the maximum amount of explosives and number of staff permitted in a factory producing explosives are strictly adhered to in our production facilities and notices containing such information are put up at the entrance of every factory. In addition, to prevent “chain explosions”, the distance between our factories in our production facilities are in accordance with the guidelines recommended by the Commission. Our factories are also built in such a way that in the event of any explosion, the impact of the explosion will be directed at a fortified safety wall, which will minimise the impact of the explosion on the surrounding areas. The premises of our production facilities also have safety bunkers for our staff to take shelter during potential explosions.
- (c) The production supervisor at each stage of our production process is responsible for the strict compliance with the relevant safety measures. Our transport manager is responsible for the strict compliance of safety measures during the transportation of raw materials and our products to and from our production facilities. They are our first-line of safety compliance officers. In respect of the transportation of raw materials and our products to and from our production facilities, we employ special container trucks that have been issued permits by the relevant authorities to transport explosives or materials that are explosive in nature. These container trucks may be distinguished from normal trucks by their yellowish orange colour and their prominent “Explosive” labels which alert members of the public to the potentially dangerous contents of the trucks. As an added safety measure, the trucks are also fitted with a fire prevention cap over their exhaust pipes and lined with wooden planks on the inside.



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

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

- (a) The Linyi Safety Production Bureau conducts safety inspections at least twice every year. The latest inspection was carried out in 19 December 2005. The Linyi Safety Production Bureau does not issue an inspection report to our Group, and Yinguang Technology did not receive any negative feedback from the Linyi Safety Production Bureau.
- (b) The Commission of Science and Technology of Shandong (山东省国防科技工业办公室) conducts an inspection on our factory and warehouse safety at least twice every year. The latest inspection was carried out on 2 December 2005. The Commission of Science and Technology of Shandong does not issue an inspection report to our Group, and Yinguang Technology did not receive any negative feedback from the Commission of Science and Technology of Shandong.
- (c) A production process and warehouse safety inspection is conducted every 3 years by an external party authorised by the Commission. The latest inspection was carried out by Beijing Guoke Hongda Technical Development Co., Ltd (北京国科宏达技术开发有限公司) from 8 January 2005 to 10 January 2005. Its inspection report dated 20 February 2005 shows that Yinguang Technology obtained a score of 86.3, which is considered as 'Safety Level'. The scoring bands set by the Commission is as follows:-

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

## SECURITY MEASURES

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

- (a) A team of trained security guards who are each certified and/or licensed by the local Public Security Bureau (公安局) guards all of our production facilities and warehouses, oversee the transportation of goods and safeguard our raw materials and finished goods. As at the Latest Practicable Date, we had a security team comprising 63 guards.
- (b) Entry into our production facilities and warehouses is restricted strictly to staff and authorised personnel only.
- (c) Stringent approval procedures, documentation and checks with respect to the flow of raw materials and finished products are also implemented.

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

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

- (a) The local Public Security Bureau (公安局) inspects our factory and warehouse security procedures at least once every month and the latest inspection was carried out on 2 December 2005. 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 latest inspection was carried out on 2 December 2005. 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.

After our listing on the SGX-ST, 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.

### LICENCES, PERMITS AND APPROVALS

In addition to the usual business and tax licences and certificates, we have obtained the following licences, permits and approvals from the relevant government authorities which are required for the conduct of our business:-

Licences, permits and approvals	Authority	Date of Award/ Validity period
Civil Explosives Equipment Production Enterprise Licence (民用爆破器材生产企业凭照)	Commission of Science, Technology and Industry for National Defense	15 April 2005/There is no expiry date for this licence
Civil Explosives Equipment Safe Production Permit (民用爆破器材安全生产许可证)	Commission of Science, Technology and Industry for National Defense	20 April 2005 to 20 April 2008
Organisation Code Certificate (组织机构代码证)	Quality and Technology Supervision Bureau of Linyi City	18 February 2005 to 18 February 2009
Foreign Exchange Registration Certificate (外汇登记证)	State Administration of Foreign Exchange Fei County Branch	25 November 2004/There is no expiry date for this licence
Certificate of the Drainage of Waste Material (排放污染物许可证)	Environmental Protection Bureau of Shandong Province	Pending <sup>(1)</sup>

**Note:-**

- (1) Yinguang Technology has applied for the issuance of the Certificate of the Drainage of Waste Material on March 2005. As at the Latest Practicable Date, the issuance of the said certificate is still pending.

Different approving authorities in the PRC have their own compliance requirements for the issue and renewal of licences, permits and approvals. In general, the PRC company shall apply to the relevant authority to renew its licence, permit or approval prior to the expiry of the licence, permit or approval. The authority may conduct an inspection to decide whether to renew the licence, permit or approval. However, most regulations do not set out the specific requirements and procedures of such inspections. In practice, the licence, permit or approval is renewed so long as the PRC company is in compliance with the conditions for the issue of the licence, permits or approvals.

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The relevant PRC authority may also conduct annual inspections within the validity period of the licence, permit or approval to ensure that the PRC company complies with the conditions for the issue of the licence, permit or approval.

There has not been any incident of suspension or revocation of any of our licences since we commenced business operations and our Directors are not aware of any fact of circumstance which will cause our licences, approvals or permits to be suspended or revoked.

As at the date of this Prospectus, we have not been subject to penalties or fines, suspension of our production activities or revocation of our production licences by the relevant regulatory authorities.

As at the date of this Prospectus, we are not aware of any infringement of any environmental laws and regulations by our Group.

### INSURANCE

Our Group has in place the following insurance policies:-

- (a) insurance policies (including, *inter alia*, fire, burglary and robbery) relating to our operations such as certain fixed assets, machinery and equipment, raw materials, work-in-progress and finished goods;
- (b) public liability insurance for personal injury and accidents; and
- (c) personal injury insurance for the employees.

Our insurance premiums accounted for approximately 0.4% and 1.0% of our total costs and expenses incurred for FY2005 and HY2006 respectively. To date, no claims were made under any of the above insurance policies taken up by our Group.

### MAJOR CUSTOMERS

We have a customer base of more than 150 customers who are mostly PRC and overseas distributors for commercial explosives as well as PRC companies in the mining, hydroelectric and railway construction industries that are the end users for our products. Customers who accounted for 5.0% or more of our total revenue for the last three financial years ended 31 March 2005 and HY2006 are listed below. Customers that are related to one another have been grouped together and treated as a single customer.

Name of Customer	Country	Percentage (%) of total revenue			
		FY2003	FY2004	FY2005	HY2006
Orica Limited	USA and Australia	27.2	23.3	20.5	28.3
Beijing Aoxin Chemical Technology Development Co. Ltd <sup>(1)</sup> (北京奥信化工科技发展有限公司)	PRC	–	9.6	13.9	5.9
Beston Chemical Corporation	USA and Australia	8.9	6.1	12.6	5.3
Zhejiang Commercial Explosives Distribution Co. Ltd <sup>(1)</sup> (浙江省物产民爆公司)	PRC	1.8	11.0	5.4	7.2

**Note:-**

- (1) Zhejiang Commercial Explosives Distribution Co. Ltd and Aoxin are also our major suppliers. Please refer to the section entitled "Business – Major Suppliers" in this Prospectus for more information.

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Orica is a company listed in Australia with a market capitalisation of approximately AUD 7.1 billion as at the Latest Practicable Date. The principal activities of Orica include the supply of industrial explosives and the provision of integrated blasting services to the mining, quarrying and construction industries. For the financial year ended 30 September 2005, Orica derived approximately AUD 1.9 billion of revenue from the supply of explosives and provision of blasting services. We sell mainly boosters to Orica's offices located in the USA and Australia.

Beston is a worldwide supplier of blasting accessories such as boosters, high explosives, propellants and intermediate chemicals. Beston's products are mainly supplied to the explosives, oil and natural gas, construction, mining and quarrying industries. We sell mainly boosters to Beston's offices in the USA and Australia.

Even though the proportion of contribution to our revenue declined as our revenue base expanded, sales to Orica and Beston in absolute amount increased collectively by 81.6% from RMB 27.2 million in FY2003 to RMB 49.4 million in FY2005 as the quality of our boosters meet their stringent requirements as well as due to our competitive pricings. In HY2006, the sales to Orica continued to increase as Orica Australia increasingly outsourced the manufacturing of boosters to us. However, in our effort to shift the export agent for sales to USA to Aoxin which offers lower agent fees, our sales to Orica and Beston in the USA were temporarily affected as Aoxin is in the process of rationalising its procedures for imports to USA. Furthermore, our exports to Orica and Beston in the USA are shipped to the Port of Berwick in Louisiana and Hurricane Katrina in late August 2005 had damaged the port, resulting in the postponement of our shipments to the USA. Thus, no sales were made to Orica and Beston in the USA during HY2006. This resulted in the decrease in the overall sales to Beston during HY2006. Our sales to Orica in the USA has resumed in December 2005.

Aoxin is an import and export trading company. It is also one of the few export companies with the relevant licence to export commercial explosives in the PRC. We started selling our products to Aoxin when it commenced business in FY2004. Aoxin purchased mainly boosters from us and exported them to their customers outside the PRC. Our sales to Aoxin decreased in HY2006 due to lower orders from their customers. Our Executive Officer Sun Qiang, has a 22.2% deemed equity interest in the capital of Aoxin through Yinsheng Investment. Sun Qiang, who is also the son of our Managing Director and Controlling Shareholder Sun Bowen, has a 54.3% equity interest in the capital of Yinsheng Investments. Sun Qiang is also a director of Yinsheng Investments. In addition, Sun Bowen is a director of Aoxin. All the transactions with Aoxin are carried out at arm's length. Please refer to the section entitled "Interested Person Transactions" in this Prospectus for more information.

Zhejiang Commercial Explosives Distribution Co., Ltd is our main distributor for our commercial explosive products in Zhejiang, PRC. Our sales to them increased from 1.8% in FY2003 to 11.0% in FY2004 mainly due to a one-off sale of boosters to them for a hydroelectric project in Zhejiang. Overall, sales to Zhejiang Commercial Explosives Distribution Co. Ltd increased from 1.8% in FY2003 to 7.2% in HY2006 due to economic growth in the Zhejiang area and the increased number of infrastructure projects in Zhejiang.

Saved as disclosed above, none of our Directors or Substantial Shareholders has any interest, direct or indirect, in any of the above major customers.

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### MAJOR SUPPLIERS

For the manufacturing of our products, we purchase explosive chemicals such as TNT, PETN and RDX and packaging materials such as cotton yarn and plastic from our suppliers in the PRC. Suppliers who accounted for 5.0% or more of our total purchases for the last three financial years ended 31 March 2005 and HY2006 are as follows: -

Name of Supplier	Percentage (%) of total purchases			
	FY2003	FY2004	FY2005	HY2006
Beijing Aoxin Chemical Technology Development Co., Ltd <sup>(1)</sup> (北京奥信化工科技发展有限公司)	–	7.9	27.0	–
China's State Reserves Bureau (国家物资储备局)	–	4.3	15.5	–
Zhejiang Commercial Explosives Distribution Co., Ltd <sup>(1)</sup> (浙江省物产民爆公司)	–	0.5	11.4	21.0
Beifang Mining Services Co., Ltd (北方爆破工程有限公司)	7.2	14.7	10.4	–
Shandong Yinguang Zaozhuang Chemical Industries Co., Ltd (山东银光枣庄化工有限公司)	–	–	7.4	0.1
China Northern Industries Corporation (中国北方工业公司)	38.4	24.0	2.1	–
Beijing Beihua Kaiming Specialty Chemical Co. Ltd (北京北化凯明特种化工有限责任公司)	14.3	3.9	–	–
Feixian Yinguang Substances Development Co., Ltd (银光物业开发有限公司)	1.0	3.7	3.0	10.6
Shanxi Feijiu Danyao Xiaohui Centre (山西废旧弹药销毁中心)	0.8	2.1	1.8	5.9
Henan Hongyang Machinery (河南红阳机械)	0.2	0.1	0.7	7.5

**Note:-**

- (1) Zhejiang Commercial Explosives Distribution Co., Ltd and Aoxin are also our major customers. Please refer to the section entitled "Business – Major Customers" in this Prospectus for more information.

Aoxin is one of the few export companies with the relevant licence to export commercial explosives in the PRC. In addition to our purchases of explosive chemicals from Aoxin, we also engaged their services to assist us in exporting explosives to our customers overseas. The export handling fees that we paid to Aoxin amounted to RMB 0.4 million in FY2005. This was classified as our distribution costs and was not included in the above percentages. Please refer to the sections entitled "Business – Major Customers" and "Interested Person Transactions" in this Prospectus for more information on our relationship and transactions with Aoxin.

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In March 2004, we started to purchase re-processed PETN from CSRB after our applications to purchase were approved by the relevant government departments and we continued to take delivery of the re-processed PETN in FY2005. We believe that we are able to secure such purchases from CSRB as we are one of the larger and more established explosive companies in the PRC. Hence, we are able to consume a sizeable amount of explosive chemicals for the manufacturing of our products. In addition, we possess the technical capability and facility to process these re-processed explosive chemicals before they can be used in our manufacturing process.

The year-to-year fluctuation in the percentage of our total purchases from the suppliers is dependent mainly on the quality, pricing and the types of materials supplied by them. Our purchases from Beifang Mining Services Co. Ltd (“Beifang Mining”), China Northern Industries Corporation and Beijing Beihua Specialty Chemical Co. Ltd, reduced in FY2004 and FY2005 as we started to purchase from other suppliers in our efforts to broaden our supplier base and continuously source for quality materials at competitive prices. Consequently, the proportion of our purchases from Zhejiang Commercial Explosives Distribution Co. Ltd, Feixian Yinguang Substances Development Co., Ltd (“Substances Development”), Shanxi Feijiu Danyao Xiaohui Centre and Henan Hongyang Machinery increased in HY2006. In HY2006, we did not purchase any materials from Aoxin, CSRB and Beifang Mining as we continued to utilise the re-processed PETN which we had acquired in FY2005.

Shandong Yinguang Zaozhuang Chemical Industries Co., Ltd (“Zaozhuang”) was a subsidiary of Yinguang Chemical before it was disposed to a third party in September 2004 and our Managing Director, Sun Bowen, was a director of Zaozhuang until June 2005. All the transactions with Zaozhuang were carried out at arm’s length.


Substances Development is a subsidiary of Yinsheng Investments where our Executive Officer, Sun Qiang, has a 54.3% interest. Our Executive Director, Bao Hongwei holds a 4% equity stake in Substances Development. More details of the transactions with Substances Development are discussed in the section “Interested Person Transactions” of this Prospectus.

Save as disclosed above, none of our Directors or Substantial Shareholders has any interest, direct or indirect in any of the above major suppliers.

### INTELLECTUAL PROPERTY

#### *Trademarks*

We have acquired and registered the following trademark in the PRC pursuant to the Restructuring Exercise:-

<i>Mark</i>	<i>Class</i>	<i>Registration No.</i>	<i>Expiration Date</i>
	13	1792108	20 June 2012

#### **Note:-**

The PRC trademark classification is in compliance with International Classification of Goods law panel which came into effect on 8 April 1961.

Class 13: for use of explosive cartridge, powder, detonating pin, detonating powder (fuse), nail bullet, detonating primer, detonating plug, dynamite, dynamite (primer) and dynamite powder.

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### *Patents*

We have acquired the following patents in the PRC, the transfer of which are still in progress pursuant to the Restructuring Exercise:-

<b>Patent</b>	<b>Registration No.</b>	<b>Expiration Date</b>
High strength nonel tube (复合夹层式高强度导爆管)	ZL 98 2 30427.7	1 April 2008
Double holes high power detonating column (双孔高能传爆药柱)	ZL 99 2 19663.9	21 January 2009
Triple holes high power detonating column (三孔高能传爆药柱)	ZL 99 2 19661.2	21 January 2009
Marked twist detonating cord (带标记线的编织式导爆索)	ZL 03 2 18336.4	24 June 2013
Piston nonel detonator (活塞式导爆管雷管)	ZL 03 2 71267.7	31 July 2013

As at the date of this Prospectus, we have not faced any claims for infringement of other registered trademarks held by third parties.

### *Collaboration Agreements*

As part of our product development activities, we also collaborate with universities and research institutes in the development of advanced technologies and products. As at the Latest Practicable Date, we have entered into technology collaboration agreements with University of Science and Technology of China (中国科学技术大学) ("USTC"), Nanjing University of Science and Technology (南京理工大学) ("NUST") and Changsha Mining Research Institute (长沙矿山研究院) ("CMRI"), the details of which are set out below:-

<b>Products</b>	<b>Date</b>	<b>Collaborative Party</b>	<b>Rights to Intellectual Property</b>
Piston nonel detonators	6 June 2005	USTC	Yinguang Technology will have the technology use right, production right and product sale right  USTC will have the technology ownership right and patent application right <sup>(1)</sup>
Extra low energy mini detonating cord	6 June 2005	USTC	Yinguang Technology will have the technology use right, production right and product sale right  USTC will have the technology ownership right or other related intellectual property right
Mini boosters	6 June 2005	USTC	Yinguang Technology will have the technology use right, production right and product sale right  USTC will have the technology ownership right and patent application right

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Products	Date	Collaborative Party	Rights to Intellectual Property
High power, safety nonel detonators	9 June 2005	NUST	Yinguang Technology and NUST jointly enjoy the intellectual property right for new products and technologies that are developed by NUST and funded by Yinguang Technology
High resolution ratio, high power, water-resistance seismic charge	28 May 2005	CMRI	Yinguang Technology and CMRI jointly enjoy the intellectual property right for new products and technologies that are developed by CMRI and funded by Yinguang Technology
“No shape memory” high strength nonel tubes	28 May 2005	CMRI	Yinguang Technology and CMRI jointly enjoy the intellectual property right for new products and technologies that are developed by CMRI and funded by Yinguang Technology

### Notes:-

- (1) The piston nonel detonator was a new product developed by the joint efforts of Yinguang Chemical and USTC before the Restructuring Exercise. Notwithstanding the terms of the collaboration agreement, the parties have agreed that the patent for the piston nonel detonator be registered under the name of Yinguang Chemical with an aggregate total payment of RMB 190,000 by Yinguang Chemical to USTC. On 31 July 2003, the patent has been successfully registered under the name of Yinguang Chemical. Pursuant to the Restructuring Exercise, Yinguang Technology has acquired the said patent from Yinguang Chemical and the transfer of such patent to Yinguang Technology is currently in progress.

Save as disclosed herein, our business or profitability is not materially dependent on any patent, licence, industrial, commercial or financial contract or new manufacturing process.

### PRODUCT AND PROCESS DEVELOPMENT

The nature of our business does not require us to carry out extensive research and development (“R&D”). While our Group does not carry out extensive R&D activities, we actively engage in product and process improvement to develop new and innovative products as well as to improve our existing range of products using advanced methods of production to maintain our competitiveness in the industry. Accordingly, strong emphasis is placed on product and process development throughout our Group, such that a significant number of employees, including our production managers, are involved in product and process development activities. We have a product and process development centre, whose main functions include the development and improvement of products, experimental work in various forms and product testing.

Our product and process department consists of 32 product and process development staff as at the Latest Practicable Date. We also engage external consultants such as academics from research institutes and universities, and research staff from the relevant state authorities and research institutes to assist us in the development of our products and to improve our production process. We aim to achieve higher production efficiency by reducing our production costs and time.

#### *Product Development*

We are constantly engaged in the development of new and innovative products as well as the improvement of our existing range of products with a view to enhance our competitiveness and to meet the preferences and requirements of our customers and the market.

To ensure market acceptance of our products, we interact regularly with our customers to understand the market trends and their specific product requirements. Our product development staff also keeps abreast with the latest technology and product requirements in the market. With this knowledge, we will then be able to better enhance existing products and develop new and innovative products that are in demand in the market. Over the years, we have engaged in product development and have progressively introduced the following products, namely, tube charges and low energy detonating cords between 1993 and 1995, YC boosters and high strength nonel tubes, which were jointly developed with third parties, between 1999 and 2002, and piston nonel detonator, which was jointly developed with third parties, between 2001 and 2003.



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We also collaborate with universities and research institutes in the development of our products. Under such collaborations, we will fund the product development activities, some of our staff will also participate in the product development activities, all product development activities have to be filed with the relevant authorities and the patents which are registered as a result of such activities will be owned either jointly between the universities, research institutes and the Group or solely owned by the universities and research institutes. Where patents are owned by the universities and research institutes, the Group will have the rights to use such technologies or rights to produce and sell such products with an annual payment of technology service fees. We are currently collaborating with Nanjing University of Science and Technology (南京理工大学), Changsha Mining Research Institute (长沙矿山研究院) and the University of Science and Technology of China (中国科学技术大学) in the development of new products. We are also cooperating and working closely with University of Science and Technology of China in the improvement and enhancement of some of our existing products. Please see the section entitled "Business – Intellectual Property" in this Prospectus for further details of our collaboration agreements.

### *Process Development*

We constantly strive to identify the latest methods of production to improve our existing production processes to be more efficient and cost effective as well as develop new production processes to support the development of new and innovative products.

As a result of the involvement in production and process development group wide, the allocation of costs related to product and process development cannot be done with reasonable accuracy. Hence, we are unable to provide a meaningful estimation of total product and process development expenses.

## SALES AND MARKETING

We have established a customer base in the PRC which includes over 30 distributors, whereby our explosive products are sold and distributed in various provinces in the PRC such as Shandong, Jiangsu and Guangdong and cities such as Beijing, Shanghai and Guangzhou. By emphasising on the establishment of sales channels, improving our after-sales services, increasing the promotional activities as well as upgrading our sales staff through training, we have been able to strengthen our sales and marketing channels in the PRC. Our customer base also includes overseas distributors, for example Beston, who will sell and market our products outside the PRC.

We have recently entered into an exclusive distributorship agreement with Beston Australia Pty. Ltd. ("Beston Australia") which gives Beston Australia the exclusive rights to distribute our boosters in Australia, New Zealand and South Africa. This agreement commenced on 5 December 2005 and will expire on 31 December 2009. The agreement shall be automatically renewed for another two years upon expiration unless it is terminated with written notice by either party at least 180 days prior to the expiry date.

## PROPERTIES AND FIXED ASSETS

The following properties are leased by our Group:

Location	Lessor	Gross Build Up Area (sq m)	Tenure	Rental (RMB per annum)	Usage
3 <sup>rd</sup> floor, No 1 Fei County, Huagong Road (费县化工路1号三楼)	Yinguang Chemical	800	3 years from 16 November 2004	51,729	Office
Northern Suburbs of Fei County, Huagong Road (费县化工路城区南郊)	Yinguang Chemical	4,805	3 years from 16 November 2004	565,096	Production facility

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Location	Lessor	Gross Build Up Area (sq m)	Tenure	Rental (RMB per annum)	Usage
Middle of Feizhu Road, Feicheng Town, Changsheng village (费朱路中段, 费城镇常胜庄)	Yinguang Chemical	13,051	3 years from 16 November 2004	2,076,137	Production facility
Middle of Zhutian Road, Zhutian Town, Kele village (朱田路中段, 朱田镇可乐庄)	Yinguang Chemical	1,414	3 years from 16 November 2004	307,038	Warehouse

### PRODUCTION FACILITIES, CAPACITY AND UTILISATION

Details of our manufacturing facilities are as follows:

Location	Production Floor Area (sq m)
Northern Suburbs of Fei County, Huagong Road (费县化工路城区南郊)	4,805
Middle of Feizhu Road, Feicheng Town, Changsheng village (费朱路中段, 费城镇常胜庄)	13,051

Our manufacturing facilities are located in Fei County, PRC and can be broadly categorised into 3 main facilities. Two of the facilities are used mainly for the manufacturing of detonating cords and boosters which are our main products. The third facility is the smallest amongst the three and is mainly used for the manufacturing of nonel tubes and other products. Our production machinery comprise mainly assembly lines, melting still, mixers, tube-welding machines, nonel tubes explosives mixers and cord weavers.

Our manufacturing facilities utilisation rates are calculated based on the maximum number of standard units of products that can be produced based on the current operating hours, 5 working days a week less 10 days of public holidays in the PRC and the actual number of standard units produced.

Our average utilisation rates for our facilities for the last three financial years ended 31 March 2005 were as follows: -

	← Manufacturing capacity →				← Utilisation rate (%) →			
	FY2003	FY2004	FY2005	HY2006	FY2003	FY2004	FY2005	HY2006
<b>Facility 1 – Detonating cords ('000 metres) <sup>(1)</sup></b>	30,000	41,667	50,000	25,000	87.0	70.2	87.5	45.4
<b>Facility 2 – Boosters (tonnes) <sup>(2)</sup></b>	5,000	5,000	5,000	2,500	45.5	74.0	72.7	51.8
<b>Facility 3 – Nonel tubes and others ('000 metres) <sup>(3)</sup></b>	33,333	33,333	33,333	33,333	32.2	37.1	78.7	67.9

**Notes:-**

- (1) Based on actual operating hours of two 8-hour shifts on a 5-day week in FY2003 to HY2006;
- (2) Based on actual operating hours of three 6-hour shifts on a 5-day week in FY2003 to HY2006;
- (3) Based on actual operating hours of one 6-hour shift on a 5-day week in FY2003 to FY2005, and actual operating hours of two 6-hour shifts on a 5-day week in HY2006.

The operating hours stated above are within the limits set by the PRC authorities for the relevant danger levels to which each of our products are categorised.

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Our manufacturing capacity is generally constrained by the production floor area, the number of machines, the number of production workers, the number of production shifts and assembly lines available. The capacity utilisation rate for Facility 1 decreased from 87.0% in FY2003 to 70.2% in FY2004 as we increased our manufacturing capacity during the period under review. In FY2005, the utilisation rate for Facility 1 increased to 87.5% as our sales volume for detonating cords increased. The utilisation rates for Facility 2 and Facility 3 increased from 45.5% and 32.2% in FY2003 to 72.7% and 78.7% respectively in FY2005 as a result of the increase in the sales volume of boosters and nonel tubes over the past three financial years. The utilisation rates for Facility 1 and Facility 2 decreased mainly due to the decrease in sales volume for detonating cords and boosters in HY2006. The utilisation rate for Facility 3 increased as a result of the increase in sales of nonel detonators in HY2006.

Our Directors are of the opinion that our current manufacturing area is adequate for our present production needs and will be able to support the anticipated increase in sales orders in the foreseeable future. However, we intend to purchase additional machinery and equipment to increase our production capacities for boosters and detonating cords, as described in the section entitled "Prospects and Future Plans – Future Plans" in this Prospectus. Subject to compliance with the relevant regulations, we are able to expand our manufacturing capacity by increasing manpower, extending working days for the 3 facilities, extending working hours for Facility 3, acquiring additional equipment and machinery and/or expanding the manufacturing areas. Save as set out in Appendix 3 entitled "Summary of Relevant PRC Laws and Regulations" in this Prospectus, there are no regulatory requirements or environmental issues that may materially affect our Group's utilisation of our tangible fixed assets in our current business.

### MATERIAL CAPITAL EXPENDITURE AND DIVESTMENT

The material expenditure made by our Pro forma Group for the past three financial years ended 31 March 2005 and for the period up to the Latest Practicable Date are as follows:

(RMB'000)	FY2003	FY2004	FY2005	1 April 2005 to the Latest Practicable Date
<b>Acquisition</b> <sup>(1)</sup>				
Plant and Machinery	1,813	2,561	525	804

**Note:-**

(1) This relates to the cost of fixed assets acquired during the respective financial years.

There has been no material divestment of capital investment in the past three financial years ended 31 March 2005 and up to the Latest Practicable Date.

### GOVERNMENT REGULATIONS

Save as disclosed in Appendix 3 entitled "Summary of Relevant PRC Laws and Regulations" in this Prospectus, our business operations are not subject to any legislation or regulatory controls which have a material effect on our Group's operations other than those generally applicable to companies and business in the countries in which we operate.

### COMPETITION

#### *PRC Market*

The explosives industry in the PRC is predominantly made up of small and medium-sized enterprises that supply explosives to customers located in the same region as them. This is due mainly to the nature of explosive products as there is a higher risk of explosions if the explosives are transported over a long distance. It is also not cost effective to incur high transport costs for low value explosive products. In addition, these small and medium-sized enterprises are not equipped to export their products overseas to compete with international explosives suppliers. In view of the above reasons, there are very few explosives companies in the PRC that export their products overseas and competition between PRC

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explosives companies is restricted mainly to the region where they are located. All manufacturers of commercial explosives in the PRC are required to obtain the Civil Explosive Equipment Production Enterprise Licence (“Explosive Production Licence”) from the Commission to carry out such manufacturing activities. To the best knowledge of our Directors, the Commission is very stringent in issuing new Explosive Production Licences as it encourages the consolidation of PRC explosives manufacturers in order to decrease the number of such manufacturers. This contributes to the high barriers to entry to the explosives industry and as such, we believe that the number of PRC competitors will not increase significantly in the near future. PRC explosives companies distinguish themselves mainly on factors such as the variety of explosives they offer, the price and quality, the technology, reliability and safety of the explosives and after-sales services.

PRC explosives companies face minimal competition from international explosives companies in respect of the sale of explosives in the PRC as explosives manufactured by PRC companies are cheaper due to the lower cost of production in the PRC. As at the date of this Prospectus, we are not aware of any international explosives company which exports their products into the PRC for sale.

### *International Market*

We compete in the international markets in countries such as the USA and Australia, against international explosives manufacturers such as Orica, Dyno Nobel ASA and Austin Powder Company. To the best knowledge of our Directors, the international commercial explosives market is dominated by a few large players such as those mentioned above, which manufacture and supply, *inter alia*, explosives and related blasting services to customers worldwide. These large players also outsource part of the manufacture of their products to other companies such as our Group. The main competitive factors in the international markets for explosives are reliability, quality and price of the products.

The main competitors for our respective explosive products are as follows:-

<b>Product</b>	<b>Competitor</b>	<b>Country</b>
Explosives devices	Liaoning Qingyang Chemical Industry Corporation (辽宁庆阳化工(集团)有限公司)	PRC
	Shandong Province Pingyi Tianbao Chemical Industry Co., Ltd (山东省平邑天宝化工有限公司)	PRC
	Fuxin Mining Bureau No. 12 Factory (阜新矿务局十二厂)	PRC
	Dyno Nobel ASA	USA
	Austin Powder Company	USA
Industrial fuse and initiating explosive devices	Shanxi Jindong Chemical (Group) Company (山西晋东化工集团公司)	PRC
	State-owned Yunnan No. 2 Fuel Factory (国营云南燃料二厂)	PRC
	Shaanxi Province Military (Group) Taidong Chemical Co., Ltd (陕西省军工(集团)泰东化工有限责任公司)	PRC
	Dyno Nobel ASA	USA
	Austin Powder Company	USA

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Product	Competitor	Country
Industrial detonators	Liaoning Huafeng Chemical (Group) Co., Ltd (辽宁华丰化工(集团)有限公司)	PRC
	State-owned Yunnan No. 1 Fuel Factory (国营云南燃料一厂)	PRC
	Xian Qinghua Civil Explosives Co., Ltd (西安庆华民爆器材有限责任公司)	PRC
	Weihai Wuling Dynamiting Equipment Co., Ltd (威海武岭爆破器材有限公司)	PRC
	Orica (Weihai) Explosives Co., Ltd (奥瑞凯(威海)爆破器材有限公司)	PRC
	Dyno Nobel ASA	USA
Austin Powder Company	USA	

### COMPETITIVE STRENGTHS

The Directors believe that the Group's competitive strengths are as follows:-

(a) **Our products meet international standards**

There are not many local PRC companies which export explosives as most of the small and medium-sized explosives companies in the PRC do not have the resources and technical expertise to compete with international explosives companies in overseas markets. However, our products are able to meet international standards as we have received ISO9001:2000, ISO14001:1996 and OHSAS18001:1999 certifications and our boosters are also tested and certified by UTEC, an authorised inspection institute for initiating explosive devices based in the US. Based on the results of UTEC's tests, our Directors believe that the quality of our boosters are comparable to international brands. Our products are sold to large international explosives companies in the United States and Australia such as Orica and Beston, which is a testament to the reliability and quality of our products. In 2004, our Group was the largest exporter of explosives products in the PRC as further described in the section entitled "Business – History" in this Prospectus.

(b) **We have an established reputation and track record**

We have been involved in the manufacturing of commercial explosives since we commenced operations in 1979 and have established "Yinguang" as a brand name associated with safe, reliable and quality explosive products. We are recognised as an advanced and high technology enterprise by the Ministry of Science and Technology of PRC. In addition, we have also received several awards relating to our products. Please refer to the section entitled "Business – Awards and Certifications" in this Prospectus for further details. Such recognition and awards attest to our established reputation and track record in the industry.

In addition, we have maintained good relationships with our customers and suppliers. As a testament to our established track record and good relations with our customers, more than 90% of our sales in FY2005 and HY2006 were derived from repeat customers.

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(c) **We adopt advanced production processes and techniques that reduce our costs of production and result in safer production processes**

Through our product and process development activities, we are able to improve our production process which results in lower costs of production. An example is the use of polyester film instead of cotton yarn to wrap the explosives in the production of detonating cords. Traditionally, large amounts of cotton yarn are used in the production and hence result in higher costs of production. The use of polyester film in our production of detonating cords allows us to reduce our costs of production by approximately 30% as compared to the costs when cotton yarn is used. Detonating cords that are produced using polyester film are more stable and safer compared to those produced using cotton yarn.

In addition, our Directors believe that we are one of the few explosives manufacturers in the PRC that adopt line production and automated computerised control in the production of explosives. These machines will stop automatically if there is a break in wrapping materials during the wrapping process in the production of detonating cords, or if there is any interruption or insufficient quantity of explosive chemicals during the loading of the explosive chemicals into the detonating cords. Through the use of automated machines in our production process, we have a safer production process and are able to decrease our costs of production as we use less manpower. We have also been recognised as an advanced and high technology enterprise by the Ministry of Science and Technology of PRC, which is a testament to our usage of advanced technology in our production process. We believe that we have the capabilities to continue producing new products with higher technology to meet our customers' requirements.

(d) **We provide a wide and integrated range of products used in commercial detonations**

To the best knowledge of our Directors, the explosives industry in the PRC comprises mainly small to medium sized companies engaged in the production of a specific explosive product such as detonating cord, detonator, booster or tube charge.

To the best knowledge of our Directors, we are one of the few explosives companies in the PRC that manufactures a wide and integrated range of products that are required for commercial detonations. Accordingly, we are able to offer our customers a complete suite of compatible explosive products for their requirements. Our Directors believe that our ability to supply a wide and integrated range of products used in commercial detonations allows us to have a competitive edge over other explosives manufacturers in the PRC who are only able to manufacture a specific product amongst the whole range of explosive products.

(e) **The barriers to entry to the explosives industry are high**

The explosives industry in the PRC is heavily regulated by the Commission and there are high barriers to entry to the industry. Permits and licences from the relevant authorities are necessary to conduct operations in this industry. Please refer to the section entitled "Business – Licences, Permits and Approvals" in this Prospectus for further details of these permits and licences. The issue of the necessary permits and licences is subject to strict review procedures by the authorities, which will only issue permits and licences to applicants whose production facilities meet the stringent technical and safety standards set by the Commission, and whose explosive products are in shortage in the PRC. As a result, this decreases our market competition in the PRC.

In addition, the technical knowledge and expertise relating to the explosives industry is very specialised and this further restricts the number of new entrants to the industry.

## SUMMARY OF OUR GROUP'S FINANCIAL INFORMATION

The following pro forma financial information of our Group relating to the last three financial years ended 31 March 2005 and unaudited consolidated financial information of our Group for HY2006, should be read in conjunction with the full text of this Prospectus, including the “Independent Auditors’ Report on the Unaudited Pro forma Financial Information of Fabchem China Limited” and Appendix 7 entitled “Report of the Auditors and Unaudited Consolidated Financial Statements of Fabchem China Pte. Ltd. for the Six Months Ended 30 September 2005” as set out in this Prospectus.

### Operating Results of our Group

(RMB'000)	← Pro forma <sup>(1)</sup> →				Unaudited Consolidated HY2006
	FY2003	FY2004	FY2005	HY2005	
<b>Revenue</b>	75,195	101,635	149,390	62,783	51,180
Cost of sales	(46,139)	(70,386)	(90,969)	(39,451)	(27,771)
Gross profit	29,056	31,249	58,421	23,332	23,409
Other income	181	208	1,555	824	279
Distribution costs	(4,641)	(4,379)	(6,509)	(3,424)	(2,150)
Administrative expenses	(5,186)	(4,255)	(5,547)	(2,627)	(3,177)
Other (charges)/ credits	(1,237)	(519)	1,864 <sup>(2)</sup>	–	–
<b>Profit from operations</b>	18,173	22,304	49,784	18,105	18,361
Finance cost	(3,464)	(3,247)	(5,179)	(2,108)	(718)
<b>Profit before income tax</b>	14,709	19,057	44,605	15,997	17,643
Income tax expense	(5,889)	(7,047)	(9,540)	(5,116)	–
<b>Net profit attributable to shareholders</b>	8,820	12,010	35,065	10,881	17,643
Earnings per Share (RMB cents) <sup>(3)</sup>	5.04	6.86	20.04	6.22	10.08

#### Notes:-

- (1) The pro forma financial results of our Group for the period under review have been prepared on the basis that our Group has been in existence since 1 April 2002.
- (2) This relates mainly to a one-off cash subsidy received from the Fei County government for our interest costs incurred on bank loans taken up to finance the expansion of our manufacturing facilities.
- (3) For comparative purposes, earnings per Share for the periods under review is computed based on net profit attributable to shareholders and the pre-Invitation share capital of 175,000,000 Shares.
- (4) Had the Service Agreements, as described in the section entitled “Directors, Management and Staff – Service Agreements” in this Prospectus, been in place with effect from 1 April 2004, the profit before income tax of the Group for FY2005 would have been approximately RMB 42.5 million, the net profit attributable to shareholders would have been approximately RMB 33.4 million and the EPS would have been RMB 19.07 cents instead of RMB 20.04 cents.

## SUMMARY OF OUR GROUP'S FINANCIAL INFORMATION

### Financial Position of our Group

(RMB'000)	Pro forma <sup>(1)</sup> As at 31 March 2005	Unaudited Consolidated As at 30 September 2005
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and cash equivalents	70,862	22,259
Trade receivables	106,075	48,025
Other receivables and prepayments	28,481	11,296
Inventories	17,734	14,050
<b>Total current assets</b>	<b>223,152</b>	<b>95,630</b>
<b>Non-current assets</b>		
Property, plant and equipment	5,752	5,842
<b>Total non-current assets</b>	<b>5,752</b>	<b>5,842</b>
<b>Total assets</b>	<b>228,904</b>	<b>101,472</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Current liabilities:</b>		
Short-term borrowings	121,600	20,000
Trade payables and accrued liabilities	26,936	18,233
Other payables	25,591	4,200
Income tax payable	7,768	–
<b>Total current liabilities</b>	<b>181,895</b>	<b>42,433</b>
<b>Shareholders' equity</b>	<b>47,009</b>	<b>59,039</b>
<b>Total liabilities and equity</b>	<b>228,904</b>	<b>101,472</b>
NTA per Share (RMB cents) <sup>(2)</sup>	26.86	33.74

**Notes:-**

- (1) The financial position of our Pro forma Group as at 31 March 2005 has been prepared on the basis that our Group had been in existence since 1 April 2002.
- (2) The NTA per share for the period under review is computed based on the total Shareholders' equity and on the pre-Invitation share capital of 175,000,000 Shares.



## SUMMARY OF OUR GROUP'S FINANCIAL INFORMATION

The following financial information presented in Singapore dollars has been translated for the sole purpose of investor convenience and has not been audited. These translations are made with reference to the exchange rates as stated in the section entitled "Exchange Rates" in this Prospectus, and should not be construed as representations that the RMB amounts actually represent such Singapore dollar amounts or could be converted into Singapore dollars at the rate indicated or at any other rate.

### Operating Results of our Group (translated into Singapore dollars)

(\$'000)	← Pro forma <sup>(1)</sup> →				Unaudited Consolidated HY2006
	FY2003	FY2004	FY2005	HY2005	
<b>Revenue</b>	16,099	21,187	30,375	12,965	10,379
Cost of sales	(9,878)	(14,673)	(18,497)	(8,147)	(5,632)
Gross profit	6,221	6,514	11,878	4,818	4,747
Other income	39	43	316	170	57
Distribution costs	(994)	(913)	(1,323)	(707)	(436)
Administrative expenses	(1,110)	(887)	(1,128)	(542)	(644)
Other (charges)/ credits	(265)	(108)	379 <sup>(2)</sup>	–	–
<b>Profit from operations</b>	3,891	4,649	10,122	3,739	3,724
Finance cost	(742)	(677)	(1,053)	(435)	(146)
<b>Profit before income tax</b>	3,149	3,972	9,069	3,304	3,578
Income tax expense	(1,261)	(1,469)	(1,940)	(1,056)	–
<b>Net profit attributable to shareholders</b>	1,888	2,503	7,129	2,248	3,578
Earnings per Share (cents) <sup>(3)</sup>	1.08	1.43	4.07	1.28	2.04

#### Notes:-

- (1) The pro forma financial results of our Group for the period under review have been prepared on the basis that our Group has been in existence since 1 April 2002.
- (2) This relates mainly to a one-off cash subsidy received from the Fei County government for our interest costs incurred on bank loans taken up to finance the expansion of our manufacturing facilities.
- (3) For comparative purposes, earnings per Share for the periods under review is computed based on net profit attributable to shareholders and the pre-Invitation share capital of 175,000,000 Shares.
- (4) Had the Service Agreements, as described in the section entitled "Directors, Management and Staff – Service Agreements" in this Prospectus, been in place with effect from 1 April 2004, the profit before income tax of the Group for FY2005 would have been approximately \$8.6 million, the net profit attributable to shareholders would have been approximately \$6.8 million and the EPS would have been 3.88 cents instead of 4.07 cents.

## SUMMARY OF OUR GROUP'S FINANCIAL INFORMATION

### Financial Position of our Group (translated into Singapore dollars)

(\$'000)	Pro forma <sup>(1)</sup> As at 31 March 2005	Unaudited Consolidated As at 30 September 2005
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and cash equivalents	14,172	4,697
Trade receivables	21,215	10,133
Other receivables and prepayments	5,696	2,383
Inventories	3,547	2,965
<b>Total current assets</b>	44,630	20,178
<b>Non-current assets</b>		
Property, plant and equipment	1,150	1,233
<b>Total non-current assets</b>	1,150	1,233
<b>Total assets</b>	45,780	21,411
<b>LIABILITIES AND EQUITY</b>		
<b>Current liabilities:</b>		
Short-term borrowings	24,320	4,220
Trade payables and accrued liabilities	5,387	3,847
Other payables	5,117	886
Income tax payable	1,554	–
<b>Total current liabilities</b>	36,378	8,953
<b>Shareholders' equity</b>	9,402	12,458
<b>Total liabilities and equity</b>	45,780	21,411
NTA per Share (cents) <sup>(2)</sup>	5.37	7.12

**Notes:-**

- (1) The financial position of our Pro forma Group as at 31 March 2005 has been prepared on the basis that our Group had been in existence since 1 April 2002.
- (2) The NTA per share for the period under review is computed based on the total Shareholders' equity and on the pre-Invitation share capital of 175,000,000 Shares.

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## MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS

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The following discussion and analysis of our results of operations and financial position has been prepared by our Company's management and should be read in conjunction with the section entitled "Independent Auditors' Report on the Unaudited Pro forma Financial Information of Fabchem China Limited" and Appendix 7 entitled "Report of the Auditors and Unaudited Consolidated Financial Statements of Fabchem China Pte. Ltd. for the Six Months Ended 30 September 2005" as set out in this Prospectus.

### OVERVIEW

#### Revenue

We derive our revenue from the manufacture and distribution of explosives, constituting explosive devices, initiators and detonators under our own brand or third parties' brands. Our products are sold for commercial uses mainly in the mining and infrastructure construction industries such as construction of key infrastructure such as dams and railway tracks. Our products are sold within the PRC and overseas countries. Our sales within the PRC constituted approximately 57.7%, 56.9%, 49.9% and 56.9% of our total revenue in FY2003, FY2004, FY2005 and HY2006 respectively. Our export market accounted for the balance 42.3%, 43.1%, 50.1% and 43.1% of our total revenue for FY2003, FY2004, FY2005 and HY2006 respectively.

In the PRC market, our products are distributed mainly through local distributors in major provinces such as Henan, Shanxi and Zhejiang and in major cities such as Beijing and Shanghai. We also sell directly to end-users such as mining and construction companies. The selling prices of our products within the PRC are regulated by the Commission. On 1 June 2005, the Commission revised the recommended prices of explosives and widened the band allowed for selling prices to deviate from the recommended prices. With the revision, the recommended prices of our main products, namely, boosters, detonating cords and industrial detonators, increased by approximately 5% to 23%. In addition, the adjusted allowed deviation from the recommended prices are up to 10% upwards and 5% downwards from the recommended prices. Prior to this revision, the deviation allowed was up to 5% above and below the recommended prices. Every sales contract in respect of the sale of commercial explosives to customers located in the PRC has to be approved by the Commission. In addition, our customers must also obtain the relevant permit issued by the Commission prior to making any purchases of explosives.

Our products are exported directly, via export agents approved by the PRC government, to more than 10 countries such as the USA, Australia and South Africa. We also sell our products to export distributors in the PRC, which in turn sells to its end customers in Vietnam, Mongolia and Thailand. For export sales, our customers comprise overseas distributors, end-users such as mining companies, and export distributors in the PRC which in turn export our products to their customers overseas. Unlike the sales of our products within the PRC, the pricing of our products to the overseas customers are not subject to any restrictions and are based on factors such as the size of the orders, the customers and market demand. For sales to our overseas customers, we export our products through licensed export companies approved by the Commission as we do not have the relevant licence to export explosives. We pay agent fees in the range of 3.0% to 5.0% of sales value to the licensed export companies.

For sales within PRC, we recognise our revenue upon delivery of our products to our customers. For export sales, we either recognise our revenue according to the shipping terms stipulated in the contracts with our customers outside the PRC, which is usually free-on-board PRC port or upon delivery and acceptance of our products by our export distributors in the PRC. For sales within the PRC, our sales are transacted in RMB. For direct export sales, we usually transact in USD with our overseas customers and in RMB with our PRC export distributors, which in turn sell our products to their overseas customers. For export sales, the freight, insurance and handling costs are mainly borne by the customers.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS

Our products can be categorised mainly into (a) explosive devices such as boosters and tube charges; (b) industrial fuse and initiating explosive devices such as detonating cords and nonel tubes; and (c) industrial detonators such as nonel detonators and piston nonel detonators. The breakdown of our revenue by the above product types in FY2003, FY2004, FY2005 and HY2006 are as follows:

	FY2003		FY2004		FY2005		HY2005		HY2006	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Explosive devices	41,170	54.7	63,067	62.0	84,218	56.4	39,300	62.6	24,511	47.9
Industrial fuse and initiating explosive devices	33,085	44.0	36,763	36.2	59,219	39.6	21,550	34.3	18,692	36.5
Industrial detonators	940	1.3	1,805	1.8	1,400	1.0	781	1.2	7,977	15.6
Others <sup>(1)</sup>	–	–	–	–	4,553	3.0	1,152	1.8	–	–
	75,195	100.0	101,635	100.0	149,390	100.0	62,783	100.0 <sup>(2)</sup>	51,180	100.0

### Notes:-

- (1) This relates to sales of raw materials to our customers at their request.  
(2) Does not add up to 100% due to rounding.

The key factors that affect our revenue include:

- Our ability to retain our manufacturing permit issued by the Commission;
- Changes in PRC regulations regarding commercial explosives, specifically the price control mechanism applicable to our local sales;
- Our ability to manufacture products that meet the quality requirements of our overseas customers and fluctuations in the prices of commercial explosives in the international market;
- Our ability to retain our existing customers and secure new ones and maintain the close working relationships with them;
- Our ability to secure orders for the supply of explosives for major projects in the PRC; and
- Our ability to cope with the technological changes in the industry such as development of new products.

Please refer to the section entitled "Risk Factors" in this Prospectus for further information on other factors that may affect our revenue.

### Cost of goods sold

Our cost of goods sold constituted approximately 61.4%, 69.3%, 60.9% and 54.3% of our revenue in FY2003, FY2004, FY2005 and HY2006 respectively. During the periods under review, approximately 82.8% of the total cost of goods sold comprised mainly cost of raw materials used in the manufacturing of our products. Cost of raw materials comprise mainly explosive chemicals such as PETN, RDX and TNT as well as packaging materials such as cotton yarn, plastic and paper boxes.

Direct labour costs consist of salary and related costs of workers directly involved in the manufacturing of our products. Factory overheads comprise mainly water and electricity, rental of manufacturing facilities and warehouses, depreciation charges, upkeep expenses incurred for equipment and machinery and insurance. Direct labour costs and factory overheads collectively accounted for about 17.2% of our cost of goods sold during the periods under review. We purchase raw materials from suppliers in the PRC and our purchases are transacted in RMB. Other items of the cost of goods sold are also incurred in RMB.

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## MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS

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The main factors affecting our cost of goods sold are:

- (a) The availability and cost of raw materials used in the manufacturing of explosives;
- (b) Our ability to recruit, retain and motivate skilled and qualified personnel for our existing businesses;
- (c) The conditions in the labour market;
- (d) The amount of investment on the machinery and equipment used in the manufacturing of explosives; and
- (e) Our ability to control and manage our other production overheads to maintain our competitiveness.

### Other operating income

Other operating income relates to interest income earned from deposits with banks and other miscellaneous income such as income derived from the sale of used packaging materials for the explosive chemicals to third parties.

### Operating expenses

Our operating expenses comprise distribution costs, administrative expenses and other credits and charges.

Distribution costs accounted for 41.9%, 47.8%, 53.4% and 40.4% of our total operating expenses (excluding the cash subsidy received in FY2005) in FY2003, FY2004, FY2005 and HY2006 respectively. These comprise mainly transportation costs, export handling expenses paid to export agents, travelling expenses and payroll and related costs of our sales and marketing staff.

Administrative expenses accounted for 46.9%, 46.5%, 45.5% and 59.6% of our total operating expenses (excluding the cash subsidy received in FY2005) in FY2003, FY2004, FY2005 and HY2006 respectively. These comprise mainly payroll and related costs of our management and administrative staff, rental of office premise, water and electricity, depreciation, bank charges and general administrative expenses related to our administrative office premise.

Other charges comprise mainly provision for impairment of receivables and bad debts written off. Other charges accounted for the balance of 11.2%, 5.7% and 1.1% of our total operating expenses (excluding the cash subsidy received in FY2005) in FY2003, FY2004 and FY2005 respectively. There were no other charges incurred in HY2006. In FY2005, we received a cash subsidy from the Fei County government amounting to approximately RMB 1.99 million for our interest costs incurred on bank loans taken up to finance the expansion of our manufacturing facilities.

### Finance cost

Finance cost relates to interest charges on bank borrowings and bills payables. These represented 4.6%, 3.2%, 3.5% and 1.4% of our revenue in FY2003, FY2004, FY2005 and HY2006 respectively. Changes in interest rates and the level of utilisation of the credit facilities will affect our finance costs.

### Income tax expense

Our Group's overall effective tax rates for FY2003, FY2004 and FY2005 were 40.0%, 37.0% and 21.4% respectively based on the pro forma financial statements. There was no income tax expense in HY2006 as our income was exempted from income tax as described below.

In FY2003, FY2004 and for 10 months of FY2005, our business was conducted under a PRC company owned by PRC nationals. Under the Enterprise Income Tax Law of the PRC, our business is subjected to an income tax rate of 33.0%. The effective tax rates in FY2003 and FY2004 were higher than the income tax rate of 33.0% due to certain expenses not deductible for tax purposes.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS

As described in the section entitled "General Information on our Group – Restructuring Exercise" in this Prospectus, our business is conducted through our wholly owned subsidiary, Yinguang Technology with effect from 1 February 2005. According to the Enterprise Income Tax Law for Foreign Investment Enterprises and Foreign Enterprises of the PRC, Yinguang Technology qualifies to enjoy a five-year tax incentive period. Under the terms of the said tax incentive period, Yinguang Technology is exempted from paying income tax for the first two profitable years of operations and is granted a 50.0% relief from the state income tax of 30.0% for the following three years. Yinguang Technology is exempted from paying the provincial income tax of 3.0% during its years of operations. The first profitable year of Yinguang Technology is 2005. Hence, the profits derived from the last 2 months of FY2005, that is, 1 February to 31 March 2005, were not subjected to any income tax. This resulted in the effective tax rate in FY2005 to be lower than the standard income tax rate of 33.0%.

### Seasonality

Our revenue for the 2<sup>nd</sup> half of the financial year (September to March) is usually higher compared to the 1<sup>st</sup> half of the financial year as it is the rainy season in the PRC around June to September every year which hinders our customers' mining, exploration and construction activities. Our PRC customers tend to increase business activities and hence purchase more commercial explosives in the non-rainy season.

### Inflation

We do not expect inflation to have any material impact on our business.

## REVIEW OF OPERATING RESULTS

We are primarily engaged in the production and sales of explosives, constituting explosive devices, initiators and detonators under our own brand or third parties' brands. As such, we have only one business segment.

Our segmental revenue by geographical market is based on the country of domicile of the customers except for the export sales to the export distributors located in the PRC. Such sales are categorised as sales outside the PRC as these export distributors do not distribute our products in the local PRC market. However, we do not have complete information on where the export distributors sold our products to. In addition, we are unable to provide meaningful breakdown of our geographical markets to include profit before income tax and profit before income tax margins as the allocation of costs and expenses cannot be done in a similar manner with reasonable accuracy as they are not directly distinguishable. A breakdown of our revenue by geographical markets is presented below.

The following review should be read in conjunction with the section entitled "Independent Auditors' Report on the Unaudited Pro forma Financial Information of FabChem China Limited" and Appendix 7 entitled "Report of the Auditors and Unaudited Consolidated Financial Statements of Fabchem China Pte. Ltd. for the Six Months Ended 30 September 2005" as set out in this Prospectus.

### Breakdown of Revenue by Geographical Markets

	FY2003		FY2004		FY2005		HY2005		HY2006	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
<b>Within PRC</b>	43,397	57.7	57,807	56.9	74,598	49.9	22,427	35.7	29,100	56.9
<b>Outside PRC</b>										
Through PRC export distributors <sup>(1)</sup>	3,988	5.3	13,967	13.7	21,379	14.3	17,772	28.3	3,413	6.7
USA	12,674	16.9	20,413	20.1	33,012	22.1	13,199	21.0	–	–
Australia	14,519	19.3	9,448	9.3	16,369	11.0	8,012	12.8	17,207	33.6
Others <sup>(2)</sup>	617	0.8	–	–	4,032	2.7	1,373	2.2	1,460	2.8
	75,195	100.0	101,635	100.0	149,390	100.0	62,783	100.0	51,180	100.0

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## MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS

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### Notes:-

- (1) These were sales to export distributors in the PRC which in turn export our products to their customers overseas. We did not have complete information on their customers. Some of the countries that they export to include Vietnam, Thailand and Mongolia.
- (2) Others comprised mainly South Africa, Pakistan and Kyrgyzstan.

### FY2004 vs FY2003

#### Revenue

Our revenue grew by RMB 26.4 million or 35.2% from RMB 75.2 million in FY2003 to RMB 101.6 million in FY2004. Our revenue growth was contributed by both the revenue derived within the PRC and outside the PRC. The increase in revenue in FY2004 over FY2003 was mainly due to the increases in sales quantity.

Revenue derived from the PRC grew by RMB 14.4 million or 33.2% from RMB 43.4 million in FY2003 to RMB 57.8 million in FY2004 due mainly to the increase in demand for our products fuelled by the economic growth in the PRC. With the economic growth in the PRC, there are numerous infrastructure and hydroelectric construction projects in various parts of the PRC which resulted in increase in demands of our explosive products.

Revenue derived outside the PRC increased by RMB 12.0 million or 37.8% from RMB 31.8 million in FY2003 to RMB 43.8 million in FY2004. The growth was contributed mainly from increased sales to export distributors in the PRC and sales to the USA market but were offset partially by the decrease in revenue derived from Australia and sales to other overseas markets.

The increase in sales to export distributors in the PRC was attributed mainly to our sales to a new major customer, Aoxin, when they commenced their business in FY2004. Our sales to the USA were fuelled by the increase in demand for our explosive devices (mainly boosters) due mainly to the quality and competitive pricing of our products. The revenue derived from Australia decreased by RMB 5.1 million or 34.9% from RMB 14.5 million in FY2003 to RMB 9.4 million. This was due mainly to restriction imposed by one of the Australian ports on the quantity of explosive goods allowed to be loaded into that port for each shipment in FY2004. With this restriction, our volume of goods shipped to Australia in FY2004 was affected and hence, revenue derived from Australia decreased by RMB 5.1 million. We did not actively sell our products directly to other markets in FY2003 and FY2004. The sales to other markets in FY2003 was an one-off sales to United Kingdom which did not recur in FY2004.

#### Gross profit

Our gross profit increased by RMB 2.2 million or 7.5% from RMB 29.1 million in FY2003 to RMB 31.2 million in FY2004. However, the gross profit margin deteriorated by 7.9 percentage points from 38.6% in FY2003 to 30.7% in FY2004. The reduction in our gross profit margin in FY2004 was largely due to higher material costs and changes in product sales mix. Higher material costs arose mainly as a result of rising international oil prices, which led to an approximately 8.0% increase in our average purchase prices of explosive chemicals such as RDX and PETN. The changes in product sales mix was mainly due to an increase in the proportion of boosters sales. The sales of boosters, which have a lower gross profit margin than other products, accounted for 62.0% of our total revenue in FY2004, compared to only 54.7% of our total revenue in FY2003.

#### Other operating income

Our other operating income increased by RMB 27,000 or 14.9% due mainly to increase in interest income earned from fixed deposits placed with the banks in FY2004.

#### Operating expenses

Our total operating expenses comprise distribution costs, administrative expenses and other charges. Total operating expenses decreased by approximately RMB 1.9 million or 17.3% from RMB 11.1 million in FY2003 to RMB 9.2 million in FY2004.

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## MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS

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Our distribution costs decreased by RMB 0.3 million. This was due mainly to the lower export handling fees and port administrative charges incurred directly by us as some of our export agents have requested that the export handling fees and port administrative charges be deducted from the sales to them. In FY2003, most of our export agents billed us for their export handling fees and port administrative charges separately while we billed them for the sales of our products based on the prices agreed with our export customers. Had we included the export handling fees and port administrative charges which were deducted from sales amount in the distribution costs, our distribution costs would have increased by RMB 1.2 million or 24.1% in FY2004.

Administrative expenses decreased by RMB 0.9 million from RMB 5.2 million in FY2003 to RMB 4.3 million in FY2004. In FY2003, a one-off management fees amounting to RMB 1.1 million was paid to our previous holding company, Yinguang Chemical Group, for management and administrative services provided by them. No such management fee was incurred in FY2004 as they ceased to provide such services. However, the reduction in management fees was offset partially by the net increase in other expenses of RMB 0.2 million such as bank charges and general administrative expenses in tandem with the increase in our business activities.

Other charges decreased by RMB 0.7 million as our net provision for impairment of receivables reduced in FY2004. This was due mainly to the reversal of provision for impairment of other receivables as the debts were recovered in FY2004.

### Finance cost

Finance cost decreased by RMB 0.2 million or 6.3% from RMB 3.5 million in FY2003 to RMB 3.3 million in FY2004 as we made partial repayments of our borrowings during the financial year and we had obtained the bulk of our additional borrowings, bills payables, only during the last quarter of FY2004.

### Profit before income tax

Our overall profit before income tax increased by RMB 4.4 million or 29.6% from RMB 14.7 million in FY2003 to RMB 19.1 million in FY2004. Our profit before income tax margin dipped slightly from 19.6% in FY2003 and 18.8% in FY2004 as the reduction in our gross profit margin from 38.6% in FY2003 to 30.7% in FY2004 as discussed above was offset partially by the reduction in our operating expenses.

### FY2005 vs FY2004

#### Revenue

Our revenue grew by RMB 47.8 million or 47.0% from RMB 101.6 million in FY2004 to RMB 149.4 million in FY2005, contributed by both revenue derived within the PRC and outside the PRC. Revenue derived within the PRC increased by RMB 16.8 million or 29.0% and revenue derived outside the PRC increased by RMB 31.0 million or 70.6%. Our increase in revenue in FY2005 was due mainly to the increases in sales quantity.

Our revenue derived within the PRC increased due mainly to the increase in demand of explosives fuelled by the increase in the number of infrastructure and hydroelectric construction projects in various parts of the PRC. In addition, the demand of our explosive devices (namely, boosters) increased as the PRC end users are increasingly shifting from using TNT explosives to the environmental-friendly non-TNT explosives in recent years. This is in line with the "5-year Commercial Explosives Industry Plan" stipulated by the Commission in 2001 to completely use environmental friendly non-TNT explosives in commercial explosions in the PRC by 2010. Boosters are devices required to initiate explosions that use non-TNT explosives. The demand of our detonating cords in the PRC market also increased as more industries are starting to use these products. For instance, it has come to our attention that some ship building companies have started using detonating cords for blast-welding purposes.



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## MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS

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Revenue derived outside the PRC increased due mainly to increased sales to the USA, Australia, export distributors and other countries such as South Africa and Pakistan. Sales to the USA grew by RMB 12.6 million or 61.7% to RMB 33.0 million as the demand for our explosive devices (mainly boosters) continued to increase due mainly to our competitive pricing and quality of our products. Sales to Australia grew by RMB 6.9 million to RMB 16.4 million in FY2005 due mainly to higher sales to one of our major customers in Australia (namely, Orica) which increasingly outsourced the manufacturing of boosters to us. Our sales to export distributors increased by RMB 7.4 million to RMB 21.4 million in FY2005 as we enjoyed a full year sales to our major customer, Aoxin in FY2005. Aoxin commenced their business during FY2004 and has since distributed our products to its end customers. Our sales to other countries amounted to RMB 4.0 million in FY2005 as we secured new customers in South Africa and Pakistan.

### Gross profit

Our gross profit increased by RMB 27.2 million or 87.0% from RMB 31.2 million in FY2004 to RMB 58.4 million in FY2005. Our gross profit margin increased by 8.4 percentage points from 30.7% in FY2004 to 39.1% in FY2005. The increase in our gross profit margin in FY2005 was due to our ability to source for alternative explosive chemicals at very competitive prices. In FY2005, we secured the purchases of re-processed PETN (钝化太安) from CSRB at very competitive prices. We were able to use the re-processed PETN to replace PETN in the manufacturing of our explosive products and hence, resulted in the improvement in our gross profit margins. Please refer to the section entitled "Business – Major Suppliers" in this Prospectus for further details on our purchases from CSRB.

### Other operating income

Our other operating income increased by RMB 1.3 million or 647.6% from RMB 0.2 million in FY2004 to RMB 1.6 million in FY2005. Interest income earned from deposits with banks increased by RMB 0.6 million in FY2005. We increased our cash deposits with banks as these were pledged to the banks to secure additional short term loans during the period under review. In addition, our miscellaneous income from the sale of used packaging materials to third parties increased by RMB 0.7 million as our business volume increased.

### Operating expenses

Our operating expenses (excluding the cash subsidy received in FY2005) increased by RMB 3.0 million or 33.1% to RMB 12.2 million in FY2005 from RMB 9.2 million in FY2004. The increase in our operating expenses was due mainly to the increase in our distribution costs of RMB 2.1 million and administrative expenses of RMB 1.3 million. The increase was offset partially by the reduction in other charges as no provision for impairment of receivables was made in FY2005.

Other credits of RMB 1.9 million in FY2005 relates mainly to a cash subsidy received from the Fei County government for our interest costs incurred on bank loans taken up to finance the expansion of our manufacturing facilities.

In tandem with the increase in our sales within PRC, transport charges and revenue-related taxes increased by RMB 1.1 million and RMB 0.4 million respectively. Our export handling fees also increased by RMB 0.6 million in line with the increase in our sales to our overseas customers.

The increase in administrative expenses was due mainly to the increase in bank charges and payroll costs, in line with the increase in our business activities. Our payroll costs increased as our administrative headcount increased from 80 in FY2004 to 94 in FY2005.

### Finance cost

Finance cost increased by RMB 1.9 million or 59.5% from RMB 3.3 million in FY2004 to RMB 5.2 million in FY2005 as interest expenses increased in tandem with the increase in short term bank borrowings and bills payables.

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## MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS

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### Profit before income tax

In tandem with the increase in revenue and improvement in gross profit margin from 30.7% in FY2004 to 39.1% in FY2005, our profit before income tax increased by RMB 25.5 million or 134.1% from RMB 19.1 million in FY2004 to RMB 44.6 million in FY2005. Consequently, our profit before income tax margin improved from 18.8% in FY2004 to 29.9% in FY2005.

### HY2006 vs HY2005

#### Revenue

Our revenue decreased by RMB 11.6 million or 18.5% from RMB 62.8 million in HY2005 to RMB 51.2 million in HY2006, due mainly to the decline in revenue derived outside the PRC. Revenue derived within the PRC increased by RMB 6.7 million or 29.8% while the revenue derived outside the PRC decreased by RMB 18.3 million or 45.3%.

Our revenue derived within the PRC continued to increase due to the increase in demand of explosives used for infrastructure and hydroelectric construction projects in the PRC and end users increasingly shifting to non-TNT explosives in recent years. In particular, the sales of our industrial detonators increased significantly during the period under review, contributed mainly by the sale of our new product, piston nonel detonators. Our piston nonel detonator, which is the product of our research collaboration with the University of Science and Technology of the PRC, is safer to use, more resistant to abrasion, more environmental friendly and costs less than other nonel detonators. We have been receiving favourable feedback from our customers during the trial phase of this new product. During HY2006, we commenced commercial production of this product and have achieved revenue of approximately RMB 4.5 million in HY2006.

Revenue derived outside the PRC decreased due mainly to decrease in sales through PRC export distributors and sales to USA. These decreases were partially offset by the increase in revenue derived from Australia. The sales through export distributors decreased by 80.8% from RMB 17.8 million in HY2005 to RMB 3.4 million in HY2006 mainly due to lower orders from Aoxin's customers. There was no sales to USA in HY2006 compared to RMB 13.2 million in HY2005. In our effort to shift the export agent for sales to USA to Aoxin which offers lower agent fees, our sales to USA was temporarily affected as Aoxin was in the process of rationalising its procedures for exports to USA. Hence Aoxin was temporarily unable to export into USA in HY2006. Furthermore, our exports to Orica USA and Beston USA are shipped to the Port of Berwick in Louisiana and Hurricane Katrina in late August 2005 had damaged the port, resulting in the postponement of our shipments to USA. We have resumed our sales to Orica USA in December 2005.

The sales to Australia increased by 114.8% from RMB 8.0 million in HY2005 to RMB 17.2 million in HY2006 as Orica, one of our major customers in Australia, continued to outsource the manufacturing of boosters to us in HY2006.

#### Gross profit

Despite the decline in revenue, our gross profit increased marginally by approximately RMB 0.1 million from RMB 23.3 million in HY2005 to RMB 23.4 million in HY2006. Our gross profit margin increased by 8.5 percentage points from 37.2% in HY2005 to 45.7% in HY2006. The increase in our gross profit margin in HY2006 was due to the usage of alternative explosive chemicals which we had purchased from CSR at very competitive prices. In the second half of FY2005, we secured the purchases of re-processed PETN from CSR. We were able to use the re-processed PETN to replace PETN and RDX in the manufacturing of our explosive products in HY2006 and hence, resulted in the improvement in our gross profit margins.

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## MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS

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### Other operating income

Our other operating income decreased by RMB 0.5 million or 66.1% from RMB 0.8 million in HY2005 to RMB 0.3 million in HY2006. This is due to the absence of interest income earned from deposits pledged to the banks to secure short term loans as our borrowings have reduced significantly in HY2006. In addition, our miscellaneous income from the sale of used packaging materials to third parties decreased by RMB 0.3 million as our business volume decreased.

### Operating expenses

Our operating expenses decreased by RMB 0.7 million or 12.0% from RMB 6.0 million in HY2005 to RMB 5.3 million in HY2006. The decrease in our operating expenses was due mainly to the decrease in our distribution expenses of RMB 1.3 million. The decrease was offset partially by the increase in administrative expenses of RMB 0.6 million. There was no other credits or charges incurred in both HY2005 and HY2006.

Our distribution expenses decreased due mainly to the lower export handling fees and the absence of revenue-related taxes. Our export handling fees decreased in line with our decline in export sales. In HY2006, our sales were not subject to revenue-related taxes as our operations are carried out under Yinguang Technology which is an FIE.

The increase in administrative expenses was due mainly to the increase in payroll and related costs as our administrative headcount increased from 79 as at the end of HY2005 to 89 as at the end of HY2006. In addition, we have adjusted the remuneration of the management and administrative staff after taking into consideration their respective duties and responsibilities.

### Finance cost

Finance cost decreased by RMB 1.4 million or 65.9% from RMB 2.1 million in HY2005 to RMB 0.7 million in HY2006 as our interest expenses decreased in tandem with the decrease in our bank borrowings.

### Profit before income tax

Despite the decrease in our revenue, our profit before tax increased by RMB 1.6 million or 10.3% from RMB 16.0 million in HY2005 to RMB 17.6 million in HY2006. This is due mainly to the improvement in our gross profit margin from 37.2% in HY2005 to 45.7% in HY2006 and the reduction in our operating expenses by RMB 0.7 million from RMB 6.0 million in HY2005 to RMB 5.3 million in HY2006. Consequently, our profit before income tax margin improved from 25.5% in HY2005 to 34.5% in HY2006.

## REVIEW OF FINANCIAL POSITION

### Current Assets

Current assets comprise mainly cash and cash equivalents, trade receivables, other receivables and prepayments and inventories.

As at 30 September 2005, our current assets amounted to RMB 95.6 million or 94.2% of our total assets and it consisted of the following:

- (a) Cash and cash equivalents amounted to RMB 22.2 million and it accounted for 23.3% of our current assets;
- (b) Trade receivables accounted for RMB 48.0 million or 50.2% of our current assets;
- (c) Our inventories of RMB 14.1 million, which accounted for 14.7% of our current assets, comprised raw materials of RMB 9.4 million and finished goods of RMB 4.7 million;

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## MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS

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- (d) Our other receivables and prepayments accounted for RMB 11.3 million or 11.8% of our current assets. Our other receivables and prepayments consist mainly of an advance to Yinguang Chemical and a prepayment to Linyi Yinguang Printing and Packaging Co., Ltd ("Yinguang Printing") amounting to RMB 7.9 million. Please refer to the section entitled "Interested Person Transactions" in this Prospectus for further details on the advance to Yinguang Chemical and the prepayment to Yinguang Printing. The remaining balance of RMB 3.4 million comprise prepayments on expenses incurred for the listing of the Company on the SGX-ST, advances to staff for business purposes and prepayments to suppliers for the purchase of raw materials.

### Non Current Assets

Non-current assets comprise plant and equipment amounting to RMB 5.8 million as at 30 September 2005 and accounted for 5.8% of our total assets. They include production machinery, office equipment and motor vehicles.

### Current Liabilities

Current liabilities comprise short-term borrowings, trade payables and accrued liabilities and other payables. As at 30 September 2005, our current liabilities amounted to RMB 42.4 million and it consisted of the following:

- (a) Short term borrowings of RMB 20.0 million which accounted for 47.1% of our current liabilities;
- (b) Trade payables and accrued liabilities of RMB 18.2 million which accounted for 43.0% of our current liabilities. They comprise mainly trade payables, accruals for operating expenses, advances from customers and value added tax payables; and
- (c) Other payables of RMB 4.2 million which accounted for 9.9% of our current liabilities. Our other payables comprise mainly of advances from shareholders, payables for expenses relating to the listing exercise and accruals of expenses.

### Shareholders' Equity

Our shareholders' equity comprises issued share capital, retained profits and PRC statutory reserves. As at 30 September 2005, our shareholders' equity amounted to RMB 59.0 million.

### LIQUIDITY AND CAPITAL RESOURCES

We had financed our operations through both internal and external sources of funds. Our internal sources of funds comprise cash generated from our operating activities. Our external sources of funds comprise mainly capital contributed by our shareholders and bank borrowings. As at the Latest Practicable Date, we had cash and cash equivalents of approximately RMB 19.2 million. Please refer to the section entitled "Capitalisation and Indebtedness" in this Prospectus for more details.

Our Directors are of the opinion that, after taking into account amounts available under our existing bank facilities, shareholders' equity (including our cash and cash equivalents) and the cash flows generated from our operations, we have as at the date of lodgment of the Prospectus, adequate working capital to meet our present requirements.

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## MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS

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We set forth a condensed summary of our statement of pro forma cash flows for FY2005 and our unaudited consolidated cash flow statement for HY2006 as follows:-

(RMB'000)	FY2005	HY2006
Net cash from operating activities	4,827	2,815
Net cash from/(used in) investing activities	323	(535)
Net cash (used in)/from financing activities	(582)	19,282
Net effect of exchange rate changes in consolidating foreign currency financial statements	80	15
Net increase in cash	4,648	21,577
Cash at beginning of the financial year	914	682 <sup>(1)</sup>
Cash at end of the financial year/financial period	5,562	22,259

**Note:-**

- (1) The cash at the beginning of the financial year is based on the cash balance of the Group which excluded the cash in Yinguang Chemical that was not taken over by our Group as at 31 March 2005.

**FY2005**

In FY2005, our net cash from operating activities amounted to RMB 4.8 million. It comprised operating profit before working capital changes of RMB 49.8 million, a net working capital outflow of RMB 37.6 million and a payment of tax of RMB 7.4 million.

Net working capital outflow of RMB 37.6 million resulted mainly from:

- (a) an increase in trade receivables of RMB 43.1 million due to the higher sales during the last quarter of FY2005 as the demands from our customers increased; and
- (b) an increase in other receivables and prepayments of RMB 12.0 million mainly arising from the increase in non-trade advances to related parties (parties related to Yinguang Chemical which is not included in the Pro forma Group) and business associates.

The above cash outflows were offset by the following cash inflows:

- (a) the decrease in inventories of RMB 6.3 million, due mainly to the higher sales during the last quarter of FY2005 which reduced our inventory for finished goods as at end of the financial year;
- (b) the increase in trade payables and accrued liabilities of RMB 4.6 million arising mainly from the increase in advances from customers and VAT payables which were in line with our higher revenue and cost of sales; and
- (c) the increase in other payables of RMB 6.6 million was due mainly to the increase in the amount due to related parties (parties related to Yinguang Chemical which is not included in the Pro forma Group) and amounts related to the listing preparation expenses.

Our net cash from investing activities of RMB 0.3 million comprise interest received of RMB 0.8 million, partially offset by an outflow of RMB 0.5 million used for the purchase of machinery.

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## MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS

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We recorded a net cash outflow used in financing activities of RMB 0.6 million comprising the effect of assets and liabilities not acquired under the Restructuring Exercise amounting to an outflow of RMB 2.7 million, dividend payout for the shareholders of Yinguang Chemical of RMB 4.8 million, payment of interests of RMB 5.2 million and the increase in restricted bank deposits of RMB 20.3 million, which was in tandem with the increase in borrowings and partially offset by the increase in borrowings of RMB 22.4 million and capital contribution of RMB 10.0 million from shareholders.

Based on the above, we have a net increase in cash of RMB 4.6 million in FY2005 and our cash stood at RMB 5.6 million as at 31 March 2005.

### HY2006

In HY2006, our net cash from operating activities amounted to RMB 2.8 million. It comprised operating profit before working capital changes of RMB 18.8 million and a net working capital outflow of RMB 16.0 million. Net working capital outflow resulted mainly from:

- (a) an increase in trade receivables of RMB 0.4 million due to higher sales to Australia in September 2005;
- (b) an increase in other receivables and prepayments of RMB 8.8 million mainly arising from the temporary advances to Yinguang Chemical of RMB 7.8 million and increase in deferred expenses of RMB 1.1 million in connection with the proposed listing of shares of the Company on the SGX-ST. Please refer to the section entitled "Interested Person Transactions" of this Prospectus for more information on the temporary advances to Yinguang Chemical;
- (c) an increase in inventories of RMB 8.8 million as we purchased the entire balance inventories from Yinguang Chemical subsequent to 31 March 2005;
- (d) a decrease in trade payables of RMB 0.6 million due to lower purchases which is in line with our decrease in sales during the period under review; and
- (e) The above cash outflows were offset by the cash inflows of RMB 2.6 million arising from the increase in other payables. Other payables increased due to accrual of expenses and additional advances from our shareholders, Dr Lim Seck Yeow and Mdm Tan Geok Bee of RMB 1.0 million in aggregate for payment of listing preparation expenses.

In HY2006, our net cash used in investing activities was RMB 0.5 million due mainly to the purchase of plant and equipment.

Our net cash from financing activities of RMB 19.3 million comprised the increase in borrowings of RMB 20 million and offset by the payment of interest expenses of RMB 0.7 million.

Based on the above, we have a net increase in cash of RMB 21.6 million in HY2006 and our cash stood at RMB 22.3 million as at the end of HY2006.

### CREDIT MANAGEMENT

#### Customers

We invoice our customers upon delivery of goods. For new customers, we will either sell on cash terms or payment in advance. We will evaluate their credit-worthiness before extending credit to them. For our regular customers in the PRC, we usually grant them credit terms of 90 days.

For our regular overseas customers, typical credit terms extended to them are as follows:

- (a) 10.0% to 20.0% of the sales amount payable within 30 days upon delivery of goods to the customer;

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS

- (b) 15.0% to 20.0% of the sales amount payable within 60 days upon delivery of goods to the customer;
- (c) 25.0% to 30.0% of the sales amount payable within 90 days upon delivery of goods to the customer; and
- (d) the balance is payable within 120 days to 150 days upon delivery of goods to the customer.

We may also extend longer credit terms to certain customers based on, *inter alia*, their credit-worthiness, payment history, transaction volume, industry information and duration of their business relationship with us. We maintain close contact and frequent communication with our existing customers and monitor events that may adversely affect their business or operations.

For customers who exceed their credit terms, we would usually communicate with these customers to discuss their payment arrangements. We currently do not charge interest on overdue trade debtors.

Our trade debtors' turnover days for the past three financial years ended 31 March 2005 and HY2006 were as follows:-

	FY2003	FY2004	FY2005	HY2006
Trade debtors' turnover days <sup>(1)</sup>	213	197	207	170

**Note:-**

- (1) The trade debtors' turnover days equals:
- For FY2003, FY2004 and FY2005: (average trade debtors / revenue) x 365 days
  - For HY2006: (average trade debtors / revenue) x 182 days

Our trade debtors' turnover days remained at approximately 200 days for the past 3 financial years ended 31 March 2005 and decreased to 170 days for HY2006. In 2005, we have put in place measures to improve our trade debtors' turnover days, such as a stricter credit management policy on new and existing customers as described above, and our sales personnel are rewarded by way of additional commissions for collecting the trade debts within the credit terms extended to our customers.

Our finance team will also monitor and review all outstanding debts on a regular basis and work with our sales team and management to recover all debts which are due. We will make specific provisions for individual customers when we are of the view that the recovery of the outstanding debt is in doubt. Bad debts may also be written off when we have ascertained that the customer is unable to meet its financial obligations. The amount of bad debts written off and specific provision for impairment of trade and other receivables made in the past three financial years ended 31 March 2005 and HY2006 were as follows:

(RMB'000)	FY2003	FY2004	FY2005	HY2006
Bad debts written off – trade receivables	28	25	–	–
Provision for impairment of trade receivables	533	1,376	–	–
Provision for impairment of other receivables	676	–	–	–
Provision for impairment of other receivables (reversal)	–	(882)	–	–
	1,237	519	–	–
As a percentage of profit before income tax (%)	8.4	2.7	–	–

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## MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS

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In FY2003 and FY2004, we had made net provision for impairment of trade and other receivables and wrote off bad debts amounting to RMB 1.2 million and RMB 0.5 million respectively. We had ceased doing business with the majority of these outstanding debtors. The reversal of provision for impairment of other receivables of RMB 0.9 million was due to debts recovered in FY2004. We had provided for these debts in FY2003 and prior years.

### Suppliers

We endeavour to pay our suppliers timely to avoid any delays in the delivery of the raw materials, thereby avoiding any disruptions to our production schedules. We normally pay our suppliers within the credit terms granted to us of between 60 to 90 days.

Our trade creditors' turnover for each of the past three financial years ended 31 March 2005 and HY2006 were as follows:-

	FY2003	FY2004	FY2005	HY2006
Trade creditors' turnover days <sup>(1)</sup>	63	65	56	71

**Note:**

- (1) The trade creditors' turnover days equals:
- For FY2003, FY2004 and FY2005: (average trade creditors / cost of goods sold) x 365 days
  - For HY2006: (average trade creditors / cost of goods sold) x 182 days

Trade creditors' turnover days remained relatively stable at 63 to 65 days from FY2003 to FY2004. In FY2005, we increased our purchases from the CSR B. The CSR B requires us to make advance payments for the purchase of raw materials. As such, our trade creditors' turnover days were shortened by 9 days from 65 days in FY2004 to 56 days in FY2005. Though our trade creditors' turnover days increased to 71 days in HY2006, it is within the normal credit terms granted by the suppliers.

### INVENTORY MANAGEMENT

Our inventory comprises mainly raw materials and finished goods. Raw materials comprise mainly explosive chemicals such as PETN, RDX and TNT and packaging materials such as wax, cotton yarn, silicon dust and plastic. We do not have work-in-progress as our production process is usually completed by the end of each day. As at 30 September 2005, approximately 66.6% and 33.4% of our inventories are raw materials and finished goods respectively.

Our inventories for raw materials are maintained after taking into account expected production schedules for our products and lead-time for the delivery of the raw materials. We do not stock up on finished goods. Inventory level for finished goods are maintained pending delivery to our customers. All incoming and outgoing goods are checked and verified by the warehouse staff and we conduct full stock counts on an annual basis. Any abnormality will be highlighted to our management.

Our inventory turnover days for the past three financial years ended FY2005 and HY2006 were as follows:

	FY2003	FY2004	FY2005	HY2006
Inventory turnover days <sup>(1)</sup>	83	98	84	63

**Note:**

- (1) The inventory turnover days equals:
- For FY2003, FY2004 and FY2005: (average inventory / cost of goods sold) x 365 days
  - For HY2006: (average inventory / cost of goods sold) x 182 days



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## MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS

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Our inventory turnover days increased from 83 days in FY2003 to 98 days in FY2004 as our finished goods increased as at end of FY2004 to meet the scheduled delivery in the following month. Our inventory turnover days decreased to 63 days in HY2006 as we consumed the raw materials purchased during FY2005.

Our inventory, which mainly consists of raw materials and finished goods, have a shelf life of between one to five years. Our Directors review the adequacy of the provision for inventory obsolescence annually. Inventory is valued at the lower of cost and net realisable value. Cost of raw materials is determined on a weighted average basis. Costs of finished goods are determined on a weighted average basis and include cost of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity. Net realisable value represents the estimated selling price in the ordinary course of business less estimated costs of completion and the estimated costs necessary to make the sale. We currently do not have any provision for inventory and there has been no inventory written off for the past three financial years ended 31 March 2005. To the best of their knowledge, our Directors are not aware of any information or development which may require us to make any provision for inventory.

### FOREIGN EXCHANGE MANAGEMENT

#### Accounting treatment of foreign currency transactions

Our reporting currency is in RMB. Our Group transacts mainly in RMB and USD. Transactions arising in foreign currencies are measured in the respective measurement currencies and recorded in RMB at exchange rates approximating those ruling on the transaction dates. All resultant exchange differences are included in the profit and loss accounts.

#### Foreign exchange exposure

Our local sales are transacted in RMB. Our sales contracts with overseas customers are mainly denominated in USD and are translated to RMB at spot rate on the day of invoicing. All of our purchases and operating expenses are denominated in RMB. The percentages of our revenue denominated in different currencies were as follows:-

As percentage of Group's revenue (%)	FY2003	FY2004	FY2005	HY2006
RMB	63.0	70.6	64.2	63.6
USD	37.0	29.4	35.8	36.4
Total	100.0	100.0	100.0	100.0

We did not have any foreign exchange gain or loss for the past three financial years and HY2006, as the RMB was pegged against the US dollar and our sales invoices are issued in RMB. With the removal of the RMB peg against the US dollar in July 2005, our foreign exchange transactions would be more susceptible to foreign currency fluctuations.

At present, we do not have any hedging policy with respect to our foreign exchange exposure. In future, we may hedge our material foreign exchange transactions after considering the foreign exchange amount, exposure period and transaction costs.

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## MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS

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### DIVIDEND POLICY

Our Company has not distributed any cash dividend since incorporation.

In April 2005, our wholly-owned subsidiary, Yinguang Technology, declared a RMB 25 million cash dividends, which has been applied in full by our Company towards increasing the registered capital of Yinguang Technology. Please refer to the section "General Information on Our Group" of this Prospectus for further details. Save as disclosed herein, Yinguang Technology has not declared any dividends since its establishment.

We currently do not have any dividend policy. The declaration and payment of future dividends will be determined at the sole discretion of the board of Directors subject to Shareholders' approval, and will depend upon our Group's operating results, financial condition, other cash requirements including working capital, capital expenditures, the terms of borrowing arrangements (if any), and other factors deemed relevant by our Directors.

In making their recommendation, our Directors will consider, among other things, our future earnings, operations, capital requirements, cash flow and financial condition, as well as general business conditions and other factors which our Directors may consider appropriate.

For FY2007, our Directors intend to recommend and distribute dividends of not less than 15% of our net profit attributable to shareholders (the "Proposed Dividend"). However, investors should note that all the foregoing statements, including the statements on the Proposed Dividend, are merely statements of our present intention and shall not constitute legally binding statements in respect of our future dividends which may be subject to modification (including reduction or non-declaration thereof) in our Directors' sole and absolute discretion. Investors should not treat the Proposed Dividend as an indication of our Group's future dividend policy and there can be no assurance that dividends will be paid in the future or as to the amount or timing of any dividends that are to be paid in the future.

No inference should or can be made from any of the foregoing statements as to our actual future profitability or our ability to pay dividends in any of the periods discussed.

Information relating to taxes payable on dividends are set out in Appendix 2 "Singapore Taxation" in this Prospectus.

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## PROSPECTS AND FUTURE PLANS

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### PROSPECTS

The commercial explosives industry in the PRC was worth a total of RMB 11.5 billion in 2004, and had experienced growth rates of 14.0%, 17.5% and 18.2% in 2002, 2003 and 2004 respectively<sup>(1)</sup>. Our Directors believe that the demand for commercial explosives, in particular high quality and reliable products such as those manufactured by us, will continue to experience robust growth due to the following factors:-

#### *Prospects for the PRC market*

Our Directors are of the opinion that the demand for energy such as coal and oil will increase rapidly with the expected continuation of strong economic development in the PRC. The number of large-scale infrastructure construction projects in various parts of the PRC is also expected to continue to increase with the economic growth in the PRC. As the commercial explosives industry plays an integral role in the harnessing of energy and resources, such as in coal mining and oil exploration and production, as well as infrastructure construction, these factors are expected to continue driving strong demand for commercial explosives products. Over the next few years, some of the infrastructure construction projects expected to be in progress include the building of a hydraulic dam in Hubei, the construction of water and electricity infrastructure in Guangxi and the development of highways throughout the PRC.

Our Directors also believe that, due to lower costs and safety reasons, the nonel detonator and detonating cords, which our Group is currently producing, will become the main explosive products to be utilised in commercial detonation projects in the future. Hence, our Directors believe that the demand for these products will increase substantially in the future and our Group is in a good position to capitalise on such increase in demand for these products. We also believe that our Group is well positioned to benefit from the continued shift to the usage of higher quality and safer explosive products, as we consider the quality of our products such as the piston nonel detonators, nonel tubes and boosters, to be amongst the more advanced within the PRC market.

The PRC government had also emphasised on the development of the commercial explosives industry in the PRC. The PRC government had formulated the Civil Explosives Industry Products Development Policies (民用爆破器材行业发展规划) and the Tenth Five-Year Development Plan Compendium of the National Civil Explosives Industry (全国民用爆破器材行业发展“十五”计划纲要) in 2001, encouraging the commercial explosives industry to actively adopt new production techniques, develop new products, introduce advance technology from overseas, constantly increase the standards of the PRC's commercial explosives industry and constantly reduce the gap between the standards of the PRC's explosive products and those produced by international explosives companies. End users in the PRC are expected to continue to shift from using TNT explosives to environmentally-friendly non-TNT explosives in line with the “5-year Commercial Explosives Industry Plan” stipulated by the Commission in 2001 to completely use environmentally friendly non-TNT explosives in commercial explosives in the PRC by 2010. This is expected to increase the demand for our boosters and detonators as boosters and detonators are devices required to increase the efficiency of an explosion that uses non-TNT explosives.

#### **Note:**

- (1) Report titled “PRC Explosives Industry Report (2004年全国民用爆破器材行业生产经营情况)” jointly issued by the Commission and the China Explosive Material Trade Association (中国爆破器材行业协会) (collectively “Authors”). The report appears on the internet website of the Commission (<http://www.costind.gov.cn/n435777/n435943/n435951/n436021/24520.html>) which was accessed on 12 October 2005. The Authors have not consented to the inclusion of the above statement and is therefore not liable for the above statement under sections 253 and 254 of the Securities and Futures Act. The Company has included the above statement in its proper form and context in this Prospectus and has not verified the accuracy of the contents of the above statement.

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## PROSPECTS AND FUTURE PLANS

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### ***Prospects for the overseas market***

Our Directors believe that the demand for energy and resources will increase strongly not only in the PRC, but in the overseas markets as well. This is expected to lead to continued demand for our high quality explosive products which are used for coal mining and oil exploration.

Our Directors are also of the opinion that our Group will be able to leverage on our technical expertise and extensive product and process development activities to develop new products and improve our existing products and production process, whilst taking advantage of our lower costs of production compared to international explosives companies, to supply and meet the increase in demand for quality explosives products in the overseas markets.

As our Group is currently selling to less than 20 overseas markets, there are large untapped overseas markets elsewhere which we may be able to penetrate in order to boost our growth. Such markets includes Mongolia and Kazakhstan.

### **TRENDS**

As at 31 January 2006, we have outstanding orders on hand amounting to approximately RMB 122 million, of which RMB 43 million is scheduled for delivery before 31 March 2006 and the balance before 31 December 2006. It is the industry practice in the PRC for the customers in the PRC to indicate their order requirements during meetings with the Commission. There will be annual meetings held at the state level in December of every year and bi-annual meetings held at the provincial level in December and June of every year. We will follow-up with the customers to execute sales contracts and seek the necessary approvals from the Commission subsequent to the meetings. Our overseas customers will also place their annual order requirements with us around December of each year. Necessary approvals from the Commission are required prior to the shipment of the goods for export sales. Subsequent to the annual meeting in December of every year, both our local and overseas customers may place additional orders with us if their initial orders are not sufficient to meet their requirements. Our order book as at any particular date may not be indicative of our revenue for any succeeding period due to the possibility of variation of order quantities, pricing and cancellation of orders by our customers. We do not impose penalties on our customers for varying quantities or cancellation of orders. There was no sales to USA in HY2006 because in our effort to shift the export agent for sales to USA to Aoxin, our sales to USA was temporarily affected as Aoxin was in the process of rationalising its procedures for exports to USA. Hence Aoxin was temporarily unable to export into USA in HY2006. Furthermore, Hurricane Katrina in late August 2005 contributed to the postponement of our shipments to USA. Please refer to the section entitled "Risk Factors – We are dependent on our major customers and export agents". We have resumed our sales to USA in December 2005.

On 1 June 2005, the Commission revised the recommended prices of explosives and widened the band allowed for selling prices to deviate from the recommended prices. With the revision, the recommended prices of our main products, namely, boosters, detonating cords and industrial detonators, increased by approximately 5% to 23%. In addition, the adjusted allowed deviation from the recommended prices are up to 10% upwards and 5% downwards from the recommended prices. Prior to this revision, the deviation allowed was up to 5% above and below the recommended prices. In view of this and barring unforeseen circumstances, we expect the average selling prices of our explosive products to increase for both local and overseas markets.

Our main components of cost of sales comprise cost of explosive chemicals, direct labour and factory overheads. The market prices of the main explosive chemicals such as RDX, TNT and PETN are not subject to government regulations as these explosive chemicals are classified as military products. The prices of these chemicals were on an upward trend in the past 12 months due mainly to the raising international oil prices. In FY2005, we secured purchases of re-processed PETN at very competitive prices from the CSR. As at the Latest Practicable Date, we are in the process of seeking approvals from the Commission for a purchase contract with the CSR to purchase 1,600 tons of re-processed RDX (钝化黑索金) at very competitive prices. We believe that we are able to continue to enjoy cost savings from purchases of raw materials from cheaper sources.

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## PROSPECTS AND FUTURE PLANS

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If the international oil prices continue to rise and/or we are not able to source for cheaper sources of supply, our raw material costs would increase in the current financial year. Other costs such as direct labour and factory overheads are expected to remain relatively stable. Depreciation costs are expected to increase when we set up manufacturing facilities for our new products and purchase additional machinery and equipment to increase our production capacity for our existing products, as further described in the section entitled "Prospects and Future Plans – Future Plans". Our inventory levels are expected to increase in tandem with the increase in sales volume.

We will continue to enjoy income tax exemption until 31 December 2006, and will be subjected to income tax of 15% for 3 years thereon.

Saved as disclosed above and in the section entitled "Risk Factors" in this Prospectus, and barring any unforeseen circumstances, our Directors believe that there are no other significant known recent trends, uncertainties, demands, commitments or events that are reasonably likely to have a material and adverse effect on our revenue, profitability, liquidity or capital resources, or that would cause financial information disclosed in this Prospectus to be not necessarily indicative of our future operating results or financial condition.

### FUTURE PLANS

Our future plans are summarised as follows:-

**(a) Set up manufacturing facilities for new products, namely seismic charges and piston nonel detonators**

We engage in extensive product and process development activities to develop new products and improve our existing products and production processes to enhance our competitiveness and to meet the preferences and requirements of our customers and the market.

Through our involvement in these product and process development activities and in our research collaborations with Changsha Mining Research Institute and University of Science and Technology of PRC, we have developed new products such as the seismic charge and piston nonel detonator respectively. The seismic charge is a type of blasting device which is mainly used to explore for oil, natural gas and minerals in the earth using the seismic wave refraction method. The seismic wave refraction method utilises sound waves as sound travels at different velocities through different materials and is refracted at layer interfaces. A seismic wave in the ground is generated via an explosion initiated by the seismic charge. The time taken by the seismic wave to travel back is then precisely measured and this is interpreted to detect the type of material in the earth. The piston nonel detonator is a special form of nonel detonator which is environmentally friendly and safe, whose detonating effect is comparable or even better than a normal nonel detonator, and can be used to substitute the normal nonel detonator. We believe that there will be demand for our piston nonel detonator in the PRC for use in commercial infrastructure projects. Our piston nonel detonator is patented and the Shandong Commission of Science and Technology had performed an appraisal and approved the manufacturing and sales of this product.

Based on the results of our potential customers' trial usage of our seismic charge and piston nonel detonator and our discussions with them, we believe that there will be considerable demand for our new products. As such, we intend to set up new manufacturing divisions for seismic charge and piston nonel detonator to commence large scale production of these new products. We have commenced negotiations with Yinguang Chemical to lease properties and premises in order to construct new factories to house our manufacturing facilities for these new products. The estimated built-in areas of the manufacturing premises are estimated to be approximately 6,000 sq m for seismic charge and 8,000 sq m for piston nonel detonator. We intend to enter into lease arrangements with Yinguang Chemical for the use of such manufacturing premises.

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## PROSPECTS AND FUTURE PLANS

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We will also be investing in machinery and equipment for our new manufacturing facilities. Upon installation of machinery and equipment, we anticipate our production capacities for seismic charges and piston nonel detonators will attain 1,000 tonnes and 60 million units per year respectively. We also plan to increase our production, sales and administrative personnel headcount for these new products.

We intend to use RMB 32 million from the Invitation proceeds for the aforesaid future expansions.

**(b) Expand our overseas markets**

We believe that we are able to compete effectively in the overseas market with our continued efforts in product development and the relatively lower cost of production in the PRC where our manufacturing facilities are located. Although we believe that there is strong potential in the PRC market for commercial explosive products, our Directors are of the view that overseas expansion is another important factor for us to sustain future growth.

We intend to expand our overseas market into countries such as Mongolia and Kazakhstan and increase our presence in South Africa. We believe that there is good potential in these markets and these markets are relatively untapped. We intend to increase our presence in these markets by intensifying our sales and marketing activities to penetrate into these markets. We have sent our sales personnel to these markets for business development and some of the potential customers from Mongolia and Kazakhstan have also visited our manufacturing facilities.

RMB 2 million of the proceeds from the Invitation will be utilised for our overseas expansion.

**(c) Increase the production capacities for our existing products**

Our production facility for detonating cord is operating at close to full capacity with an average capacity utilisation rate of more than 85.0% in FY2005. We intend to increase our production capacities for detonating cord and boosters to meet the anticipated increase in demand for our explosive products in the PRC and in our overseas markets.

We intend to purchase additional machinery and equipment to enhance and complement our existing production lines for detonating cord and boosters. With the additions, we anticipate our production capacity for detonating cords will increase to approximately 70 million metres of detonating cords per year from the current capacity of 50 million metres per year. Our production capacity for boosters is anticipated to increase to 7,500 tons per year from the current capacity of 5,000 tons per year.

We intend to utilise RMB 1 million from the Invitation proceeds for the above expansion plans.

**(d) Expand our business through acquisitions, joint ventures or strategic alliances**

We plan to expand our business by entering into strategic investments, alliances or joint ventures with suitable partners who can strengthen our market position or add value to our existing business. Where opportunities arise, we also intend to acquire assets or businesses in similar or complementary industries as part of our expansion plans. To date, we have not identified any potential party to acquire business from or to form joint ventures or strategic alliances with. Should opportunities arise, we will seek approval, where necessary, from our Shareholders and the relevant authorities, as required by the relevant laws and regulations.

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## DIRECTORS, MANAGEMENT AND STAFF

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### DIRECTORS

Our Board of Directors is entrusted with the responsibility for the overall management of our Group. The particulars of our Directors are as follows:-

Name	Age	Address	Principal Occupation
Dr Lim Seck Yeow	68	34, West Coast Park, Singapore 127711	Director of China Food Industries Limited
Sun Bowen	55	No. 7, 3 <sup>rd</sup> row, #01-01, No 129 Heping Road, Fei County, Shandong, PRC	Managing Director
Bao Hongwei	36	No. 7, 2 <sup>nd</sup> row, #03-01, No 129 Heping Road, Fei County, Shandong, PRC	Executive Director and General Manager
Ong Tai Tiong Desmond	37	23 Lucky Heights, Singapore 467577	Managing Director of DLA Piper Rudnick Gray Cary (Singapore) Pte. Ltd.
Lim Hui Min John	44	5 Elias Green, #05-01, Singapore 519961	Business Development Director of Meinhardt (Singapore) Pte Ltd

Information on the business and working experience of our Directors is set out below:-

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

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

**Sun Bowen** is our Managing Director and was appointed as our Director on 16 June 2005. He is responsible for the overall management and operations of our Group and is also responsible for formulating business strategies and policies of our Group. He has been with our Group since 1980 when Feixian Chemical Factory was first established in 1979. He was a factory manager in Feixian Chemical Factory and thereafter became a majority shareholder of Yinguang Chemical Group. He was also the director and general manager of 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 Yinguang Chemical till 2004. He is currently a non-executive director of Yinguang Chemical Group, Yinguang Chemical and the managing director of Yinguang Technology.

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

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## DIRECTORS, MANAGEMENT AND STAFF

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**Bao Hongwei** is our General Manager and was appointed as our Director on 16 June 2005. He is responsible for our day-to-day management and operations of our Group. He joined Feixian Chemical Factory in 1989 as a section manager and was subsequently promoted to deputy factory manager in 1991. In 1997, he was a non-executive director of Yinguang Chemical Group and also a managing director and general manager of Feixian Yinguang Drawnwork Co., Ltd. He is currently a non-executive director of Yinguang Chemical Group, Yinguang Chemical and Feixian Yinguang Drawnwork Co., Ltd and Yinguang Zhicheng Household Co. Ltd.

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

**Ong Tai Tiong Desmond** is our Independent Director and was appointed as our Director on 17 February 2006. Currently, he is the Regional Managing Director of DLA Piper Rudnick Gray Cary (Singapore) Pte. Ltd. (“DLA”), an international law firm, where he undertakes the overall responsibility for the business performances of DLA’s South East Asian offices. From December 1998 to 31 May 2003, he was the managing partner of Messrs J Koh & Co. He has also previously practiced at Messrs Rajah & Tann and Messrs Allen & Gledhill.

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

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

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

The list of present and past directorships of each of our Directors for the last 5 years (excluding those held in our Company) is set out below:-

Name	Present Directorships	Past Directorships
Dr Lim Seck Yeow	<u>Group Companies</u>	<u>Group Companies</u>
	Nil	Nil
	<u>Other Companies</u>	<u>Other Companies</u>
	Great China Holdings Pte. Ltd. Delight Success Limited Fivestar Limited Hoggeston Limited Jadefield Group Limited Rasacinta Pte Ltd (formerly known as Rasacinta Food Systems Pte Ltd) Smettwick Resources Limited	Taman Holdings Pte Ltd Windsor Marine Pte Ltd Thye Seng Trading Company Pte Ltd Lowe Walker Singapore Pte Ltd (dissolved by Members’ voluntary winding up) Alpha China Enterprises Limited Capital Joint Limited



## DIRECTORS, MANAGEMENT AND STAFF

Name	Present Directorships	Past Directorships
Dr Lim Seck Yeow	<u>Other Companies</u> (continued) Richmond (New Zealand) Singapore Pte Ltd China Food Industries Limited Zhongguo Powerplus Industries Limited Zhongguo Jilong Limited China Steel Pte. Ltd. China Cement Pte. Ltd. Junan Hengxing Foodstuff Co., Ltd Shandong Xinquan Liangyou Foodstuff Co., Ltd Laiyang Hongshun Foodstuffs Co., Ltd Laiyang Xinghua Foodstuffs Co., Ltd Laiyang Jilong Health Drinks Co., Ltd Laiyang Jilong Edible Oil Co., Ltd Laiyang Green Food Co., Ltd Linyi Sanhe Yongjia Power Co., Ltd	<u>Other Companies</u> Lombard Inc. Fortsmith Investments Limited Global Capital Investments Pte. Ltd.
Sun Bowen	<u>Group Companies</u> Shandong Yinguang Technology Co., Ltd (山东银光科技有限公司)  <u>Other Companies</u> Shandong Yinguang Chemical Industry Co., Ltd (山东银光化工股份有限公司) Shandong Yinguang Chemical Group Co., Ltd (山东银光化工集团有限公司) Beijing Aoxin Chemical Technology Development Co., Ltd (北京奥信化工科技发展有限公司) Fortsmith Investments Limited	<u>Group Companies</u> Nil  <u>Other Companies</u> Shandong Yinguang Zaozhuang Chemical Industries Co., Ltd (山东银光枣庄化工有限公司) Taian Yinguang Xinhua Chemical Industries Co., Ltd (泰安银光新华化工有限公司) Xinjiang Fangzheng Chemical Engineering Co., Ltd (新疆方正化工轻工有限责任公司)
Bao Hongwei	<u>Group Companies</u> Shandong Yinguang Technology Co., Ltd (山东银光科技有限公司)  <u>Other Companies</u> Shandong Yinguang Chemical Group Co., Ltd (山东银光化工集团有限公司) Shandong Yinguang Chemical Industry Co., Ltd (山东银光化工股份有限公司) Feixian Yinguang Drawnwork Co., Ltd (费县银光抽纱有限公司) Shandong Yinguang Household Textile Co., Ltd (山东银光家用纺织品有限公司) Shandong Yinguang ZhiCheng Household Co., Ltd (山东银光志诚家纺有限公司) Lombard Inc.	<u>Group Companies</u> Nil  <u>Other Companies</u> Nil

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## DIRECTORS, MANAGEMENT AND STAFF

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Name	Present Directorships	Past Directorships
Ong Tai Tiong Desmond	<u>Group Companies</u>	<u>Group Companies</u>
	Nil	Nil
	<u>Other Companies</u>	<u>Other Companies</u>
	China Food Industries Limited	KLW Holdings Limited
	DLA Piper Rudnick Gray Cary (Singapore) Pte. Ltd.	
	Zhongguo Powerplus Industries Limited	
	Teledata (Singapore) Limited	
	Airocean Group Limited Singapore Dance Theatre Limited	
Lim Hui Min John	<u>Group Companies</u>	<u>Group Companies</u>
	Nil	Nil
	<u>Other Companies</u>	<u>Other Companies</u>
	Abterra Ltd. (formerly known as Hua Kok International Ltd)	SEC Engineering Pte. Ltd.

### MANAGEMENT

The day-to-day operations of our Group is entrusted to our Executive Officers whose particulars are as follows:-

Name	Age	Address	Principal Occupation
Sun Qiang	34	No 7, 3rd row, #05-01, No 129 Heping Road, Fei County, Shandong, PRC	Sales and Marketing Manager
Chen Hongyu	38	No 6, 5th row, #03-01, No 129 Heping Road, Fei County, Shandong, PRC	Finance Manager (China Operations)
Kwek Wei Lee	27	Blk 635 Jurong West St 65 #16-332 Singapore 640635	Finance Manager (Group Accounts)
Yang Changde	34	No 6, 2nd row, #01-01, No 129 Heping Road, Fei County, Shandong, PRC	Production Manager
Yang Xingdong	33	No 6, 2nd row, #03-01, No 129 Heping Road, Fei County, Shandong, PRC	Administrative Manager

Sun Qiang is the son of our Managing Director, Sun Bowen.

Save as disclosed above, none of our Directors has any family relationship with other Directors or with any of our Executive Officers or our Substantial Shareholders.

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## DIRECTORS, MANAGEMENT AND STAFF

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Information on the business and working experience of our Executive Officers is set out below:-

**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 Yinsheng Investments. Prior to joining our Group, he was a civil servant in Economic and Trade Committee of Fei County from 1991 to 1993 and thereafter became a section manager and was later promoted to department head in the Ministry of Labour and Social Security of Fei County from 1993 to 2003. He was also a deputy general manager of Yinguang Chemical from 2003 to 2004. He holds a degree in Economics and Management from the Cadre Correspondence University of Shandong and a diploma in Business Management from the Jinan University of Shandong.

**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.

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

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

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

The list of present and past directorships of each of our Executive Officers for the last five years is set out below:-

Name	Present Directorships	Past Directorships
Sun Qiang	<u>Group Companies</u>	<u>Group Companies</u>
	Shandong Yinguang Technology Co., Ltd (山东银光科技有限公司)	Nil
	<u>Other Companies</u>	<u>Other Companies</u>
	Shandong Yinsheng Investments Co., Ltd (山东银升投资有限公司)	Nil

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## DIRECTORS, MANAGEMENT AND STAFF

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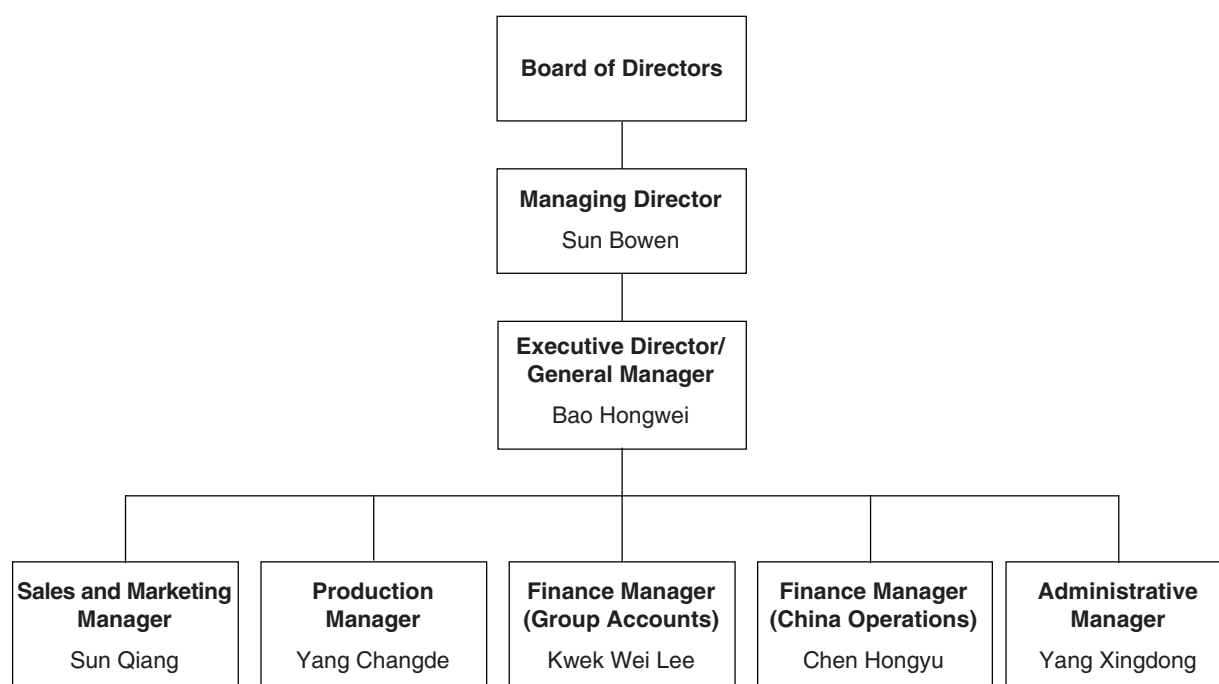
Name	Present Directorships	Past Directorships
Chen Hongyu	<u>Group Companies</u>	<u>Group Companies</u>
	Nil	Nil
	<u>Other Companies</u>	<u>Other Companies</u>
	Nil	Nil
Kwek Wei Lee	<u>Group Companies</u>	<u>Group Companies</u>
	Nil	Nil
	<u>Other Companies</u>	<u>Other Companies</u>
	Nil	Nil
Yang Changde	<u>Group Companies</u>	<u>Group Companies</u>
	Nil	Nil
	<u>Other Companies</u>	<u>Other Companies</u>
	Shandong Yinguang Chemical Industry Co., Ltd (山东银光化工股份有限公司)	Nil
Yang Xingdong	<u>Group Companies</u>	<u>Group Companies</u>
	Shandong Yinguang Technology Co., Ltd (山东银光科技有限公司)	Nil
	<u>Other Companies</u>	<u>Other Companies</u>
	Shandong Yinguang Chemical Industry Co., Ltd (山东银光化工股份有限公司)	Nil

There is no arrangement or understanding with any Substantial Shareholder, customer or supplier of our Group or other person, pursuant to which any of our Directors and Executive Officers were appointed.

## DIRECTORS, MANAGEMENT AND STAFF

### MANAGEMENT REPORTING STRUCTURE

The management reporting structure of our Group is set up below:-



### STAFF

As at the Latest Practicable Date, our Group had 705 full-time employees. Our employees are members of our internal labour union which attends to the welfare of our employees and which acts as the liaison between the staff and the management. Our employees are not members of any external labour union. The relationship between our management and staff has been good and we expect this to continue. There has not been any incidence of work stoppages or labour disputes which affected our operations since we commenced operations.

The breakdown of our employees by functions of our businesses as at the end of each of the past three financial years and HY2006 is as follows:-

#### Breakdown of our full-time employees by functions

	← As at 31 March →			As at 30 September
	2003	2004	2005	2006
Management, Administration and Finance	67	80	94	89
Sales and Marketing	34	42	41	41
Production	487	492	512	509
Security	48	50	59	62
Total number of full-time employees	636	664	706	701

All of our full-time employees for the past three financial years and HY2006 are based in the PRC save and except for our Finance Manager (Group Accounts). We did not employ any temporary employees during the period under review.

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## DIRECTORS, MANAGEMENT AND STAFF

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### STAFF TRAINING

We recognise that the quality of our staff is an important factor contributing to the success of our business. We place heavy emphasis on staff training which aims to equip our employees with the relevant skills necessary to carry out their job functions and to inculcate them on the importance of adhering to the safety measures adopted by us. Our training programmes and our employees' training needs are identified and monitored by the respective heads of department to ensure that our employees obtain the relevant training.

#### *In-House Training*

We implement both in-house training and on-the-job training for all our new employees. Our technical training course is designed in accordance with the requirements of our various departments or stages of production processes. The in-house training and on-the-job training serves to ensure that our employees clearly understand the nature of their respective job functions, our operational procedures, our quality standards requirements, the safety measures adopted by our Group, our corporate philosophy and to ensure that our employees are updated on the latest developments in the industry.

#### *External Training*

From time to time, external training programmes such as seminars and courses are organised to complement in-house training and on-the-job training. In addition, our management and executive staff undergo training in areas such as management, quality assurance and technical developments to ensure that they can perform their roles within our Group effectively.

The amounts spent by our Group on staff training in the past three financial years and HY2006, as a percentage of our revenue, was insignificant as most of our staff training were organised and conducted in-house.

### DIRECTORS' AND EXECUTIVE OFFICERS' REMUNERATION

The remuneration<sup>(1)</sup> of our Directors and top five key executives for services rendered to us and our subsidiary on an aggregate basis and in remuneration bands<sup>(2)</sup> for each of the two most recent completed financial years and an estimated amount of remuneration paid and to be paid for the current financial year are as follows:-

	FY2004	FY2005	FY2006
<b>Directors</b>			
Dr Lim Seck Yeow	– <sup>(3)</sup>	– <sup>(4)</sup>	A
Sun Bowen	–	–	A
Bao Hongwei	–	–	A
Ong Tai Tiong Desmond	– <sup>(3)</sup>	– <sup>(3)</sup>	A
Lim Hui Min John	– <sup>(3)</sup>	– <sup>(3)</sup>	A
<b>Key Executives</b>			
Sun Qiang	A	A	A
Chen Hongyu	A	A	A
Kwek Wei Lee	– <sup>(3)</sup>	– <sup>(3)</sup>	A
Yang Changde	A	A	A
Yang Xingdong	A	A	A

#### **Notes:-**

- (1) Remuneration includes salary, bonus, CPF, directors' fee and benefits-in-kind. For the purpose of this estimation, the bonus that our Executive Directors are entitled to as Performance Bonus has not been taken into account. Details of such Performance Bonus are set out under the section entitled "Directors, Management and Staff – Service Agreements" in this Prospectus.

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## DIRECTORS, MANAGEMENT AND STAFF

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- (2) Remuneration band:-  
“A” refers to remuneration up to \$250,000
- (3) Not under our employment/appointment in the relevant period.
- (4) Our non-executive Chairman, Dr Lim Seck Yeow, was appointed as our Director on 12 October 2004. He did not receive any remuneration including salary, CPF, director’s fee and benefits-in-kind, from us in FY2005.

### Pension Scheme

Our subsidiary Yinguang Technology participates in the national pension scheme in accordance with the laws in the PRC and contributes 19.0% of our employees’ basic salary to our employees’ retirement pension fund. In addition, as part of our national social security scheme, we contribute to statutory social insurances for our employees based on the statutory contribution rates of 1% to 2% of basic salary.

Save as disclosed above, we have not set aside or accrued any amounts to provide for pension, retirement or similar benefits for any of our employees. Yinguang Technology has no other obligation for the payments of retirement and other post-retirement benefits of employees.

We also comply with and contribute to CPF in respect of our staff who are based in Singapore.

## CORPORATE GOVERNANCE

### Nominating Committee

Our Nominating Committee comprises Ong Tai Tiong Desmond, Dr Lim Seck Yeow and Lim Hui Min John. The Chairman of the Nominating Committee is Ong Tai Tiong Desmond. Our Nominating Committee will be responsible for (a) the selection and appointment of new Directors and re-nomination of our Directors having regard to the Director’s contribution and performance, (b) determining annually whether or not a Director is independent and (c) deciding whether or not a Director is able to and has been adequately carrying out his duties as a director. The Nominating Committee will decide on how the Board’s performance is to be evaluated and propose objective performance criteria, subject to the approval of the Board, which address how the Board has enhanced long-term shareholders’ value. The Board will also implement a process to be carried out by the Nominating Committee for assessing the effectiveness of the Board as a whole and for assessing the contribution by each individual Director to the effectiveness of the Board. Each member of the Nominating Committee shall abstain from voting on any resolutions and making any recommendations and/or participating in any deliberations of the Nominating Committee in respect of the assessment of his performance or re-nomination as director.

### Remuneration Committee

Our Remuneration Committee comprises Ong Tai Tiong Desmond, Dr Lim Seck Yeow and Lim Hui Min John. The Chairman of the Remuneration Committee is Ong Tai Tiong Desmond. Our Remuneration Committee will be responsible for recommending to our Board a framework of remuneration for the Directors and key executives, setting up remuneration policies and determining specific remuneration packages for each Director and key executive based on their performance and also reviewing the remuneration thereof. The recommendations of our Remuneration Committee will be submitted for endorsement by the entire board. All aspects of remuneration, including but not limited to Directors’ fees, salaries, allowances, bonuses, options, long-term incentive schemes and benefits in kind shall be covered by our Remuneration Committee. Each member of the Remuneration Committee shall abstain from voting on any resolutions and making recommendations and/or participating in any deliberations of the Remuneration Committee in respect of his remuneration package.

### Audit Committee

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

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## DIRECTORS, MANAGEMENT AND STAFF

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Our Independent Directors, namely Lim Hui Min John and Ong Tai Tiong Desmond, do not have any existing business or professional relationship of a material nature with our Group, other Directors or other Substantial Shareholders. They are also not related to the other Directors or our Substantial Shareholders.

Our Audit Committee will assist our Board in discharging their responsibility to safeguard our assets, maintain adequate accounting records, and develop and maintain effective systems of internal control, with the overall objective of ensuring that our management creates and maintains an effective control environment in our Group.

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

In particular, our Audit Committee will:

- (a) review with the external auditors and where applicable, our internal auditors, their audit plans, their evaluation of the system of internal accounting controls, their letter to management and the management's response;
- (b) review the quarterly and annual financial statements and balance sheet and profit and loss accounts before submission to our Board for approval, focusing in particular on changes in accounting policies and practices, major risk areas, significant adjustments resulting from the audit, compliance with accounting standards and compliance with the Listing Manual and any other relevant statutory or regulatory requirements;
- (c) ensure co-ordination between the external auditors and our management, and review the assistance given by our management to the auditors, and discuss problems and concerns, if any, arising from the interim and final audits, and any matters which the auditors may wish to discuss (in the absence of our management, where necessary);
- (d) review and discuss with the external auditors any suspected fraud or irregularity, or suspected infringement of any relevant laws, rules or regulations, which has or is likely to have a material impact on our Group's operating results or financial position, and our management's response;
- (e) review our internal auditors' report on their checks on whether all of the Group's safety and security measures and procedures have been complied with, and disclose the results of such checks in our Company's annual report every year;
- (f) make recommendations to our Board on the appointment, re-appointment and removal of the external auditor(s) and approving the remuneration and terms of engagement of the external auditor;
- (g) review interested person transactions (if any) falling within the scope of Chapter 9 of the SGX-ST Listing Manual;
- (h) review potential conflicts of interest, if any;
- (i) undertake such other reviews and projects as may be requested by our Board, and will report to our Board its findings from time to time on matters arising and requiring the attention of our Audit Committee;
- (j) generally undertake such other functions and duties as may be required by the legislation, regulations or the Listing Manual, or by such amendments as may be made thereto from time to time;
- (k) appoint the internal auditors, when our Company sets up the internal audit function after our listing on the SGX-ST;



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## DIRECTORS, MANAGEMENT AND STAFF

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- (l) review the scope and results of the audit and its cost effectiveness, and the independence and objectivity of our external auditors, review the nature and extent of non-audit services, where applicable;
- (m) review the significant financial reporting issues and judgments so as to ensure the integrity of the financial statements and any formal announcements relating to our financial performance;
- (n) review the effectiveness of our internal audit function;
- (o) review arrangements by which our staff may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters; and
- (p) review the adequacy of our internal financial controls, operational and compliance controls, and risk management policies and systems established by our management.

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

### Board Practices

Every Director shall retire from office once every three years and for this purpose, at each annual general meeting. One-third of the Directors for the time being (or, if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation. A retiring Director shall be eligible for re-election.

### SERVICE AGREEMENTS

We have entered into separate service agreements (the "Service Agreements") with our Executive Directors, namely, Sun Bowen and Bao Hongwei (individually known as an "Executive Director") for an initial period of three (3) years from the date of commencement, being the date of admission of our Company to the Official List of the SGX-ST, of the Service Agreement (the "Initial Term") and shall automatically expire at the end of the Initial Term unless renewed by our Company for such period as our Company may so decide. The appointment of the Executive Director may be terminated at any time in accordance with the provisions of the Service Agreement or by either party giving to the other three (3) months' notice in writing of such intended termination, or in lieu of the said three (3) months' notice, an amount equivalent to three (3) months' salary based on the Executive Director's last drawn salary, save that the Executive Director shall not terminate his employment with the Company during the Initial Term. None of the Executive Directors will be entitled to any benefits upon termination of his Service Agreement.

The Service Agreements shall automatically terminate without any notice or payment in lieu of notice if (a) the Executive Director becomes prohibited by law from being or ceases to be a director of the Company for any reason whatsoever; (b) the Executive Director is or may be suffering from a mental disorder; or (c) the Executive Director is convicted of any criminal offence (save for an offence under road traffic legislation for which he is not sentenced to any term of immediate or suspended imprisonment) and sentenced to any term of immediate or suspended imprisonment.

The Service Agreements may be terminated by the Company in the event that the Executive Director commits certain events of default (comprising gross misconduct, breach of a material provision of the Service Agreements, criminal breach of trust or dishonesty or if he becomes bankrupt or makes any arrangement or composition with his creditors) as described in his Service Agreement and upon such termination, the Executive Director shall not be entitled to claim any compensation or damages.

Under the Service Agreements, Sun Bowen and Bao Hongwei will each receive a monthly salary of S\$10,000 and S\$4,000 respectively. Our Company will reimburse the Executive Directors all travelling, hotel, entertainment and other expenses reasonably incurred by them in the performance of their duties, during the term of each of their respective Service Agreements.

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## DIRECTORS, MANAGEMENT AND STAFF

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Our Executive Directors will be entitled to directors' fees subject to the review and recommendation of the Remuneration Committee and the approval of Shareholders at the annual general meeting of our Company.

Our Managing Director, Sun Bowen, will be paid a performance bonus (the "Performance Bonus"), based on our Group's audited consolidated profit before income tax, performance bonus, gains on exceptional items and extraordinary items (the "Profits") as follows:-

- (a) Sun Bowen is entitled to 2% of the Profits where the Profits are RMB 44,000,000 or less; and
- (b) additionally, where the Profits are more than RMB 44,000,000, Sun Bowen is entitled to 3% of the difference between the Profits and RMB 44,000,000.

Our Executive Director, Bao Hongwei will be paid a Performance Bonus of 1% of the Profits.

Please refer to the section entitled "Directors, Management and Staff – Directors" in this Prospectus for details of the responsibilities of Sun Bowen and Bao Hongwei in our Group. Under their leadership, the operations of our Group have developed and expanded rapidly. We consider their leadership, expertise and continuing contribution to our Group to be invaluable and vital to the future growth of the Group and awarding them with the Performance Bonus will serve as a reward as well as to motivate them to continue to contribute to the growth of our Group.

Had the Service Agreements been in place for FY2005, the aggregate remuneration payable to our Executive Directors (including annual bonus, Director's fee, performance bonus and benefits-in-kind) would have been approximately RMB 2.1 million instead of RMB nil and the profit before income tax of our Group for FY2005 would have been approximately RMB 42.5 million instead of RMB 44.6 million.

Save as disclosed above, there are no existing or proposed service agreements between our Company and any of our Executive Directors.

## INTERESTED PERSON TRANSACTIONS

Save as disclosed below and under the section entitled “Restructuring Exercise” in this Prospectus, none of our Directors, Controlling Shareholders or their respective associates (collectively referred to as “Interested Persons”) has any interest in any material transactions undertaken by our Group in the last three financial years and up to the Latest Practicable Date (the “Relevant Period”).

### PAST TRANSACTIONS

#### *Loans from our existing Shareholders to our Company*

Between October 2004 and March 2005, our non-executive Chairman, Dr Lim Seck Yeow and our Controlling Shareholder, Tan Geok Bee, advanced loans to our Company amounting to \$1,110,978 and \$1,098,569 respectively for use as working capital and to finance the acquisition of Yinguang Technology by our Company. The loans are interest-free, unsecured and have no fixed term of repayment.

On 22 March 2005, we capitalised \$1,999,998 of the aggregate amount owing to Dr Lim Seck Yeow and Tan Geok Bee by issuing 1,999,998 fully-paid new ordinary shares in their favour. Dr Lim Seck Yeow and Tan Geok Bee then transferred these shares to Fortsmith Investments Limited, Lombard Inc. and Fivestar Limited, as further described in the sections entitled “Restructuring Exercise” and “General Information on our Group – Shareholders” in this Prospectus.

Between April 2005 to the Latest Practicable Date, Dr Lim Seck Yeow and Tan Geok Bee, advanced loans to our Company amounting to \$211,544 and \$205,000 respectively for use as working capital. The loans are interest-free, unsecured and have no fixed term of repayment.

The remaining amounts of \$322,523 and \$303,570 due to Dr Lim Seck Yeow and Tan Geok Bee as at the Latest Practicable Date, will be repaid to them at our discretion and subject to review by our Audit Committee. We do not intend to enter into such transactions after the admission of our Company to the Official List of the SGX-ST.

#### *Transactions with Yinguang Chemical*

Our Executive Officer, Sun Qiang, who is the son of our Managing Director and Controlling Shareholder, Sun Bowen, has a 54.3% interest in Yinsheng Investments. Yinsheng Investments in turn has a 61.24% equity interest in Yinguang Chemical. Our Directors and Executive Officers also hold equity interests in Yinguang Chemical as detailed in the table below. Other than Yinsheng Investment’s 61.24% interest in Yinguang Chemical, less than 3% of Yinguang Chemical are held by employees of Yinguang Technology including our Directors and Executive Officers. The balance 36.31% equity interest in Yinguang Chemical are held by other third party PRC individuals who are not related to our Directors and Controlling Shareholders.

Shareholders of Yinguang Chemical	No. of shares	Percentage of shareholdings (%)
Yinsheng Investments (54.3% held by Sun Qiang)	24,605,452	61.24
<i>Our Directors</i>		
Sun Bowen	220,000	0.55
Bao Hongwei	50,000	0.12
<i>Our Executive Officers</i>		
Chen Hongyu	18,000	0.04
Yang Changde	6,875	0.02
Yang Xingdong	6,250	0.02
Sun Qiang	Nil	Nil
Other Employees of Yinguang Technology	682,500	1.70
Others	14,587,203	36.31
<b>Total</b>	<b>40,176,280</b>	<b>100.00</b>

## INTERESTED PERSON TRANSACTIONS

Yinguang Chemical conducted the business of our Group prior to the Restructuring Exercise. On completion of the transfer of the Business to our Group, Yinguang Chemical became an investment holding company. Yinguang Chemical has undertaken that it will not engage in, or directly or indirectly participate in or hold any equity interests in, any company, or set up any company or joint venture, which is engaged in, any business similar to, or in competition with, the business of the Group.

There were no transactions with Yinguang Chemical in FY2003 and FY2004 as our Group commenced operations only in February 2005. The value of transactions between our Group and Yinguang Chemical in FY2005 and for the period from 1 April 2005 to the Latest Practicable Date, the trade and non-trade balances at the end of each of the relevant periods were as follows:

RMB'000	FY2005	1 April 2005 to the Latest Practicable Date
Profit transfer pursuant to the Restructuring Exercise	15,403	–
Purchase of inventories	27,890	12,195
Rental expenses	1,250	2,500
Trade balances due to Yinguang Chemical	12,456	–
Non-trade balances due from Yinguang Chemical	–	–

(a) Yinguang Technology's entitlements to net profits of Yinguang Chemical

Pursuant to the Restructuring Exercise, the details of which are set out under the section entitled "Restructuring Exercise" in this Prospectus, Yinguang Technology acquired the Business from Yinguang Chemical with effect from 1 November 2004. However, Yinguang Technology undertook and operated the business only in February 2005 after it had obtained all the relevant regulatory licences to commence its business. In accordance with the terms of the acquisition, Yinguang Technology is entitled to the net profits of Yinguang Chemical from 1 November 2004 which amounted to RMB 15.4 million. This amount was offset against the trade balances due to Yinguang Chemical as at 31 March 2005. This was a one-off transaction as a result of the Restructuring Exercise and will not be undertaken in the future.

(b) Acquisition of inventories by Yinguang Technology

In addition to the above, we purchased inventories from Yinguang Chemical at cost for production purposes. Total value of inventories purchased for the period from 1 February 2005 to 31 March 2005 amounted to RMB 27.9 million and total value of inventories purchased for the period from 1 April 2005 to the Latest Practicable Date amounted to RMB 12.2 million. We do not intend to enter into such transactions in the future.

(c) Advances to Yinguang Chemical

In September 2005, we advanced a bridging loan of RMB 9.9 million to assist Yinguang Chemical to re-finance their bank loans. The loan is interest-free, unsecured and has no fixed term of repayment. As at 30 September 2005, RMB 7.8 million was due to us from Yinguang Chemical in relation to this transaction. This amount has been fully repaid in October 2005. We do not intend to enter into such transactions in the future.

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## INTERESTED PERSON TRANSACTIONS

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### PRESENT AND CONTINUING TRANSACTIONS

#### ***Lease of properties from Yinguang Chemical***

Yinguang Technology presently leases from Yinguang Chemical the properties at Fei County in PRC where our manufacturing facilities, offices and warehouses are located at a monthly rental of RMB 0.25 million. The lease is for a period of 3 years from 16 November 2004 to 15 November 2007. As there is no established rental market or statistics to determine the rental of similar properties, the rental amount is determined by dividing the market value of the properties over the remaining useful lives of the properties. The market value of the properties was determined in accordance with an independent valuation report on the properties. The leases were entered into on normal commercial terms and on arm's length.

#### ***Purchase of packaging materials from Feixian Yinguang Substances Development Co., Ltd (费县银光物业开发有限公司) (“Substances Development”)***

Substances Development, a 52.0% owned subsidiary of Yinsheng Investments, is engaged in sales and manufacturing of packaging materials. Our Executive Officer, Sun Qiang, who is the son of our Managing Director and Controlling Shareholder, Sun Bowen, has a 54.3% interest in Yinsheng Investments. Our Executive Director, Bao Hongwei holds a 4% equity interest in Substances Development.

Our Group procured packaging materials such as paper boxes that are used to package our finished goods from Substances Development. We started to purchase from Substances Development from April 2005 onwards and the total amount of purchases up to the Latest Practicable Date was approximately RMB 5.5 million. As at the Latest Practicable Date, approximately RMB 2.8 million was due to Substances Development from us in relation to the above transactions. These transactions were entered into on normal commercial terms and on arm's length basis.

#### ***Payment of transportation charges to Feixian Yinguang Transport Co., Ltd (费县银光运输有限公司) (“Yinguang Transport”)***

Yinguang Transport is a transport company which possesses the licence to transport dangerous goods in the PRC. Our Controlling Shareholder and Managing Director, Sun Bowen, holds a 80% equity interest in Yinguang Transport.

We engaged the services of Yinguang Transport to deliver our products in the PRC for our local and overseas customers. We started to engage the services of Yinguang Transport from February 2005 onwards and the total amount of transport charges for the period from 1 February 2005 to 31 March 2005 and from 1 April 2005 up to the Latest Practicable Date was approximately RMB 39,000 and RMB 2.2 million respectively. As at the Latest Practicable Date, approximately RMB 34,000 was due to Yinguang Transport from us in relation to the above transactions. The transactions were entered into on normal commercial terms and on arm's length basis.

#### ***Purchase of printing and packaging materials from Linyi Yinguang Printing and Packaging Co., Ltd (临沂银光印刷包装有限公司) (“Yinguang Printing”)***

Yinguang Printing, a 75.0% owned subsidiary of Yinguang Chemical, is engaged in sales and manufacturing of printing and packaging materials. The balance 25.0% equity stake is owned by Yinguang Drawnwork, a 58.7% owned subsidiary of Yinsheng Investments.

Our Group procured printing and packaging materials such as product instruction manuals, paper stationery and paper packaging materials for our products from Yinguang Printing. We started to purchase from Yinguang Printing from July 2005 and the total amount of purchases up to the Latest Practicable Date was approximately RMB 450,000.

As at the Latest Practicable Date, we have prepaid approximately RMB 18,000 to Yinguang Printing for orders placed with them. The transactions were entered into on normal commercial terms and on arm's length basis.

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## INTERESTED PERSON TRANSACTIONS

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### ***Purchase of magnesium materials from Feixian Yinguang Magnesium Co., Ltd (费县银光镁业有限公司) (“Yinguang Magnesium”)***

Yinguang Magnesium, a 97.6% owned subsidiary of Yinguang Chemical, is engaged in sales and manufacturing of magnesium materials. The balance 2.4% equity stake is owned by third parties,

Our Group procured magnesium materials such as lead tubes that are used during our manufacturing process from Yinguang Magnesium. We started to purchase from Yinguang Magnesium from May 2005 and the total amount of purchases up to the Latest Practicable Date was approximately RMB 293,000. As at the Latest Practicable Date, approximately RMB 44,000 was due to Yinguang Magnesium in relation to the above transactions. The transactions were entered into on normal commercial terms and on arm's length basis.

### ***Purchase of embroidery and textile products from Feixian Yinguang Drawnwork Co., Ltd (费县银光抽纱有限公司) (“Yinguang Drawnwork”)***

Yinguang Drawnwork, a 58.7% owned subsidiary of Yinsheng Investments, is engaged in sales and manufacturing of embroidery and textile products. The balance 41.3% is owned by third parties.

Our Group purchased embroidery and textile products from Yinguang Drawnwork as gifts for our business associates. We purchased the embroidery and textile products from Yinguang Drawnwork since July 2005 and the total amount of purchases up to the Latest Practicable Date was approximately RMB 98,000. As at the Latest Practicable Date, approximately RMB 55,000 was due to Yinguang Drawnwork from us in relation to the above transactions. The transactions were entered into on normal commercial terms and on arm's length basis.

After the admission of our Company to the Official List of the SGX-ST, transactions with Yinguang Chemical, Substances Development, Yinguang Transport, Yinguang Printing, Yinguang Magnesium and Yinguang Drawnwork will be entered into in accordance with guidelines prescribed under the section entitled “Interested Person Transactions – Review Procedures for Future Interested Person Transactions” in this Prospectus, the prevailing legislation and the Listing Manual, to ensure that they are transacted at arm's length and on normal commercial terms and are not prejudicial to the interests of our Group and our Shareholders.

## OTHER TRANSACTIONS

We set forth below the following transactions involving companies connected to our Directors and/or Controlling Shareholders but which do not fall within the ambit of the definition of an “Interested Person” under Chapter 9 of the Listing Manual. We may continue with such transactions where the terms relating thereto are in the interest of, or beneficial to, our Group.

### ***Transactions with Aoxin***

Aoxin is an import and export trading company. It is also one of the few export companies in the PRC with the relevant licence to export commercial explosives. Yinsheng Investments has a 22.2% interest in Aoxin. Our Executive Officer, Sun Qiang, who is the son of our Controlling Shareholder and Managing Director, Sun Bowen, has a 54.3% interest in Yinsheng Investments. Sun Bowen is also a non-executive director of Aoxin.

Since our Group commenced operations in February 2005, there were no transactions between our Group and Aoxin in FY2003 and FY2004. The value of transactions between our Group and Aoxin in FY2005 and for the period from 1 April 2005 to the Latest Practicable Date, and the trade balances at the end of each of the relevant periods were as follows:

<b>RMB'000</b>	<b>FY2005</b>	<b>1 April 2005 to the Latest Practicable Date</b>
Sales of commercial explosives to Aoxin	–	4,696
Sales of commercial explosives to our overseas customers through Aoxin	14,684	16,895
Trade balances due from Aoxin	17,181	13,487

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## INTERESTED PERSON TRANSACTIONS

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We sell our commercial explosives to Aoxin which in turn sells to its customers overseas. In addition, we also engage the services of Aoxin to export our products to our overseas customers as we do not have the relevant licence to export commercial explosives. We negotiate the terms of sales and sign the sales contracts with our overseas customers. As we export our products through Aoxin, we raise our invoices to Aoxin based on the sales values agreed with our overseas customers less handling fees payable to Aoxin and port administrative fees payable by Aoxin on our behalf to the relevant port authorities. Hence, the above sales amount is net of handling fees and port administrative fees. We pay handling fees of between 3.5% to 5.0% of the gross sales value to Aoxin for such services. The handling fees payable to Aoxin deducted from the sales amounts were approximately RMB 588,000 for the period from February to March 2005 and RMB 688,000 for the period from April 2005 to the Latest Practicable Date. The transactions were entered into on normal commercial terms and on arm's length basis.

In addition to the above, we may also purchase explosive chemicals from Aoxin in future.

After the admission of our Company to the Official List of the SGX-ST, transactions with Aoxin will be entered into in accordance with guidelines prescribed under the section entitled "Interested Person Transactions – Review Procedures for Future Interested Person Transactions" in this Prospectus, to ensure that they are transacted at arm's length and on normal commercial terms and are not prejudicial to the interests of our Group and our Shareholders.

### REVIEW PROCEDURES FOR FUTURE INTERESTED PERSON TRANSACTIONS

Our Audit Committee will review and approve all interested person transactions as defined by the SGX-ST Listing Manual, and transactions with Aoxin, (collectively, "Interested Person Transactions") to ensure that they are on normal commercial terms and arms' length basis, that is, the transactions are transacted on terms and prices not more favourable to the interested persons than if they were transacted with a third party and are not prejudicial to the interests of our shareholders in any way.

During its periodic review or such other review deemed necessary by them, our Audit Committee will carry out review of records of all Interested Person Transactions to ensure that they are carried out in accordance with the following internal control procedures:

- (a) All Interested Persons Transactions above \$100,000 are to be approved by a Director who shall not be an Interested Person in respect of the particular transaction. Interested Person Transactions below \$100,000 do not require such approval, except that all transactions with Aoxin (including transactions which are below \$100,000) shall be reviewed by the Audit Committee on a yearly basis. In addition, our Audit Committee will ensure that the terms (including, *inter alia*, credit terms granted) of the Interested Person Transactions are consistent with our Group's usual business practices and the procedures as follows:-
  - (i) When selling items or supplying services to an interested person, the price or fee and terms of at least two other successful sales of a similar nature to non-interested persons will be used for comparison. The sale price or fee shall not be lower than the lowest sale price or fee of the other transactions with non-interested persons;
  - (ii) When purchasing items from or engaging the services of an interested person, at least two other quotations from non-interested persons will be obtained for comparison. The purchase price or fee shall not be higher than the most competitive price or fee of the other transactions with non-interested persons. In determining the most competitive price or fee, non-price factors such as quality, delivery time, and track record will be taken into account; and

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## INTERESTED PERSON TRANSACTIONS

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- (iii) When renting properties from or to an interested person, our Directors shall take appropriate steps to ensure that such rent is commensurate with the prevailing market rates, including adopting measures such as making relevant enquiries with landlords of similar properties and obtaining necessary reports or reviews published by property agents (including an independent valuation report by a property valuer, where considered appropriate). The rent payable shall be based on the most competitive market rental rate of similar property in terms of size and location, based on the results of the relevant enquiries. When it is not possible to obtain or establish the prevailing market rates through the methods described above, the Audit Committee will determine whether the rental fees to be paid or received are fair and reasonable and consistent with the Group's usual business practices.

For (i) and (ii) above, in the event that it is not possible for such quotations to be obtained, our Audit Committee will determine whether the fees offered by the interested persons are fair and reasonable and the terms of supply from the interested persons are in accordance with industry norms.

- (b) In addition, we shall monitor all Interested Person Transactions entered into by us and categorise these transactions as follows:
- (i) a Category 1 Interested Person Transaction is one where the value thereof is in excess of 5% of the NTA of our Group; and
- (ii) a Category 2 Interested Person Transaction is one where the value thereof is below or equal to 5% of the NTA of our Group.

All Category 1 Interested Person Transactions must be approved by our Audit Committee prior to entry whereas Category 2 Interested Person Transactions need not be approved by our Audit Committee prior to entry but shall be reviewed on a quarterly basis by our Audit Committee.

We will prepare relevant information to assist our Audit Committee in its review. If during the periodic reviews, our Audit Committee is of the view that the established guidelines and procedures are not sufficient to ensure that the Interested Person Transactions will be conducted at arm's length and on normal commercial terms and may be prejudicial to the interests of our minority Shareholders, we will adopt new guidelines and procedures.

Before any agreement or arrangement that is not in the ordinary course of business of our Group is transacted, prior approval must be obtained from our Audit Committee. In the event that a member of our Audit Committee is interested in any of the Interested Person Transactions, he will abstain from reviewing that particular transaction. Any decision to proceed with such an agreement or arrangement would be recorded for review by our Audit Committee.

Our Audit Committee will also review all Interested Person Transactions (save for transactions with Aoxin) to ensure that the prevailing rules and regulations of the SGX-ST (in particular, Chapter 9 of the Listing Manual) are complied with.

We will also comply with the provisions in Chapter 9 of the Listing Manual in respect of all future Interested Person Transactions (save for transactions with Aoxin), and if required under the Listing Manual or the Act, we will seek our shareholders' approval (where necessary) for such transactions. We will also endeavour to comply with the principles of and best practices set out in the Best Practices Guide of the Listing Manual.

All our Independent Directors, who are members of our Audit Committee, are of the view that the review procedures and systematic monitoring mechanism of all Interested Person Transactions as mentioned above, are adequate in ensuring that such transactions will be on normal commercial terms and will not be prejudicial to the interests of our Shareholders in any way.



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## INTERESTED PERSON TRANSACTIONS

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### POTENTIAL CONFLICTS OF INTERESTS

#### Conflict of Interests

As disclosed above, Aoxin is an import and export trading company. It engages in the trading and export of commercial explosives and chemical products. Yinsheng Investments has a 22.2% interest in Aoxin. Our Executive Officer, Sun Qiang, who is the son of our Controlling Shareholder and Managing Director, Sun Bowen, has a 54.3% interest in Yinsheng Investments. Sun Bowen is also a non-executive director of Aoxin.

Aoxin may procure and distribute commercial explosives manufactured by third parties to our customers or potential customers in PRC and overseas. To address any potential conflicts of interest that could arise between our Group and Aoxin, as a result of Sun Bowen and Sun Qiang's association with Aoxin as described in the preceding paragraph, Aoxin has given an undertaking to our Group:-

- (a) that in respect of our Group's existing range of commercial explosive products, Aoxin shall not procure such commercial explosive products from any third party manufacturers or suppliers unless Aoxin shall have first approached our Group to procure such products; Aoxin will be permitted to procure products from third party manufacturers or suppliers only in the event that we decline to supply the products to Aoxin; and
- (b) that in respect of commercial explosive products which our Group currently does not manufacture and which Aoxin currently procures from third parties, in the event that our Group commences manufacture of such products, the right of first refusal stated in paragraph (a) above shall similarly apply.

Each of Sun Bowen and Sun Qiang has also undertaken to procure that Aoxin fulfils its aforesaid undertakings.

Should a conflict of interest situation arise in Sun Bowen acting as a non-executive director of Aoxin vis-à-vis our Group, Sun Bowen is required to disclose such matters of conflict of interests and abstain from voting on such matters in our Company. Furthermore, in the event that Aoxin proposes any resolution which could result in a potential conflict of interest arising between our Group and Aoxin, Sun Bowen is required to, subject to applicable laws, exercise his voting rights in Aoxin to vote against such resolution.

The aforesaid undertaking will lapse on the occurrence of any one of the following events:

- (a) Sun Bowen ceases to be our Director and Controlling Shareholder and Sun Qiang ceases to be our Executive Officer; or
- (b) our Company ceases to be listed on the SGX-ST.

To ensure that the above undertaking is monitored and complied with, our Audit Committee (which is made up of our Independent Directors) and our Board (excluding Sun Bowen) will, on a regular basis, review whether the undertaking provided by Aoxin has been breached or could potentially be breached. As and when our Board receives information or becomes aware that the undertaking referred to above has been or could potentially be breached, our Board (excluding Sun Bowen) and Audit Committee will review the matter, and where necessary, obtain legal advice as to the appropriate measures that should be taken to address such breach or potential breach, and to take necessary measures to safeguard our Group's position in light of the legal advice given.

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## INTERESTED PERSON TRANSACTIONS

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Save as disclosed in this section and in the section entitled "Interested Person Transactions" in this Prospectus:-

- (a) none of our Directors, Executive Officers or Controlling Shareholders or their associates has any interest, direct or indirect, in any material transactions to which we were or are to be a party;
- (b) none of our Directors, Executive Officers or Controlling Shareholders or their associates has any interest, direct or indirect, in any company carrying on the same business or carrying on a similar trade as us; and
- (c) none of our Directors, Executive Officers or Controlling Shareholders or their associates has any interest, direct or indirect, in any enterprise or company that is our customer or supplier of goods or services.

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## CLEARANCE AND SETTLEMENT

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Upon listing and quotation on the SGX-ST, our Shares will be traded under the book-entry settlement system of the CDP, and all dealings in and transactions of our Shares through the SGX-ST will be effected in accordance with the terms and conditions for the operation of securities accounts with the CDP, as amended from time to time.

Our Shares will be registered in the name of CDP or its nominee and held by CDP for and on behalf of persons who maintain, either directly or through depository agents, securities accounts with CDP. Persons named as direct securities account holders and depository agents in the depository register maintained by the CDP, rather than CDP itself, will be treated, under our Articles of Association and the Act, as members of our Company in respect of the number of Shares credited to their respective securities accounts.

Persons holding our Shares in securities account with CDP may withdraw the number of our Shares they own from the book-entry settlement system in the form of physical share certificates. Such share certificates will, however, not be valid for delivery pursuant to trades transacted on the SGX-ST, although they will be prima facie evidence of title and may be transferred in accordance with our Articles of Association. A fee of \$10.00 for each withdrawal of 1,000 Shares or less and a fee of \$25.00 for each withdrawal of more than 1,000 Shares is payable upon withdrawing our Shares from the book-entry settlement system and obtaining physical share certificates. In addition, a fee of \$2.00 or such other amount as our Directors may decide, is payable to the share registrar for each share certificate issued and a stamp duty of \$10.00 is also payable where our Shares are withdrawn in the name of the person withdrawing our Shares or \$0.20 per \$100.00 or part thereof of the last transacted price where it is withdrawn in the name of a third party. Persons holding physical share certificates who wish to trade on the SGX-ST must deposit with CDP their share certificates together with the duly executed and stamped instruments of transfer in favour of CDP, and have their respective securities accounts credited with the number of Shares deposited before they can effect the desired trades. A fee of S\$20.00 is payable upon the deposit of each instrument or transfer with CDP.

Transactions in our Shares under the book-entry settlement system will be reflected by the seller's securities account being debited with the number of Shares sold and the buyer's securities account being credited with the number of Shares acquired. No transfer of stamp duty is currently payable for the Shares that are settled on a book-entry basis.

A Singapore clearing fee for trades in shares on SGX-ST is payable at the rate of 0.05% of the transaction value subject to a maximum of \$200 per transaction. The clearing fee, instrument of transfer deposit fee and share withdrawal fee may be subject to Singapore Goods and Services Tax of 5%.

Dealings of our Shares will be carried out in Singapore dollars and will be effected for settlement on CDP on a scripless basis. Settlement of trades on a normal "ready" basis on SGX-ST generally takes place on the third business day following the transaction date, and payment for the securities is generally settled on the following business day. CDP holds securities on behalf of investors in securities accounts. An investor may open a direct account with CDP or a sub-account with a CDP depository agent. The CDP depository agent may be a member company of the SGX-ST, bank, merchant bank or trust company.

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## INDEPENDENT AUDITORS' REPORT ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF FABCHEM CHINA LIMITED

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5 April 2006

The Board of Directors  
50 Raffles Place #29-00  
Singapore Land Tower  
Singapore 048623

Dear Sirs:

We report on the unaudited pro forma financial information of Fabchem China Limited (the "Company") set out on pages 126 to 152 of the Prospectus, which have been prepared, for illustrative purposes only and based on certain assumptions and after making certain adjustments to show what:-

- (a) the financial results of the Company and its subsidiary (collectively, the "Group" or the "Pro forma Group") for the years ended 31 March 2003, 2004, 2005 and for the 6 months ended 30 September 2005 would have been if the Group structure as of the date of lodgement of the Prospectus had been in place since 1 April 2002;
- (b) the financial position of the Pro forma Group as of the dates of the balance sheets as at 31 March 2005 and as at 30 September 2005 would have been if the Group structure as of the date of lodgement of the Prospectus had been in place on those dates; and
- (c) the cash flows and changes in equity of the Pro forma Group for the financial year ended 31 March 2005 and for the 6 months ended 30 September 2005 would have been if the Group structure as of the date of lodgement of the Prospectus had been in place since 1 April 2004.

The pro forma financial information, because of their nature, may not give a true picture of the Group's actual financial position, results, cash flow and changes in equity.

The pro forma financial information is the responsibility of the Directors of the Company. Our responsibility is to express an opinion on the pro forma financial statements based on our work.

We carried out procedures in accordance with Singapore Statement of Auditing Practice : SAP 24 : "Auditors and Public Offering Documents". Our work, which involved no independent examination of the underlying financial statements, consisted primarily of comparing the pro forma financial information to the financial statements of entities concerned considering the evidence supporting the adjustments and discussing the pro forma financial information with the Directors of the Company.

- (a) In our opinion, the unaudited pro forma financial information for the financial years ended 31 March 2003, 2004 and 2005 and for the 6 months ended 30 September 2005 have been properly prepared:
  - (i) from the audited financial statements for the financial years ended 31 March 2003, 2004 and 2005 and from the unaudited financial statements for the 6 months ended 30 September 2005 of the entities concerned, which were prepared in accordance with the Financial Reporting Standards in Singapore;
  - (ii) in a manner consistent with the format of the audited financial statements and the accounting policies of the Group; and
  - (iii) on the bases stated in pages 130 to 131 of the Prospectus; and
- (b) each material adjustment made to the information used in the preparation of the unaudited pro forma financial information is appropriate for the purpose of preparing such financial information.

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**INDEPENDENT AUDITORS' REPORT ON THE UNAUDITED PRO FORMA  
FINANCIAL INFORMATION OF FABCHEM CHINA LIMITED**

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This report has been prepared for the inclusion in the Prospectus dated 5 April 2006 in connection with the invitation by the Company in respect of the issue of 59,000,000 new ordinary shares in the share capital of the Company.

Yours faithfully

RSM CHIO LIM\*  
Certified Public Accountants, Singapore

Ng Thiam Soon  
Partner-in-charge

\* With effect from 11 January 2006, Chio Lim & Associates became a member firm of RSM International and is now known as RSM Chio Lim.

**UNAUDITED PRO FORMA FINANCIAL INFORMATION  
OF FABCHEM CHINA LIMITED**

**UNAUDITED PRO FORMA BALANCE SHEET OF THE GROUP**

	<u>Note</u>	As at <u>31 March 2005</u> RMB'000	As at <u>30 September 2005</u> RMB'000
<b>ASSETS</b>			
<b>Current assets:</b>			
Cash and cash equivalents	4	70,862	22,259
Trade receivables	5	106,075	48,025
Other receivables and prepayments	6	28,481	11,296
Inventories	7	17,734	14,050
<b>Total current assets</b>		<b>223,152</b>	<b>95,630</b>
<b>Non-current assets:</b>			
Property, plant and equipment	8	5,752	5,842
<b>Total non-current assets</b>		<b>5,752</b>	<b>5,842</b>
<b>Total assets</b>		<b>228,904</b>	<b>101,472</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current liabilities:</b>			
Short-term borrowings	9	121,600	20,000
Trade payables and accrued liabilities	10	26,936	18,233
Other payables	11	25,591	4,200
Income tax payable		7,768	–
<b>Total current liabilities</b>		<b>181,895</b>	<b>42,433</b>
<b>Shareholders' equity</b>		<b>47,009</b>	<b>59,039</b>
<b>Total liabilities and equity</b>		<b>228,904</b>	<b>101,472</b>

*See accompanying notes to financial statements.*

**UNAUDITED PRO FORMA FINANCIAL INFORMATION  
OF FABCHEM CHINA LIMITED**

**UNAUDITED PRO FORMA INCOME STATEMENTS OF THE GROUP**

	Note	Year ended 31 March			Period ended 30 September	
		2003 RMB'000	2004 RMB'000	2005 RMB'000	2004 RMB'000	2005 RMB'000
Revenue	12	75,195	101,635	149,390	62,783	51,180
Cost of sales		(46,139)	(70,386)	(90,969)	(39,451)	(27,771)
Gross profit		29,056	31,249	58,421	23,332	23,409
Other income	13	181	208	1,555	824	279
Distribution costs		(4,641)	(4,379)	(6,509)	(3,424)	(2,150)
Administrative expenses		(5,186)	(4,255)	(5,547)	(2,627)	(3,177)
Other (charges)/credits	14	(1,237)	(519)	1,864	–	–
<b>Profit from operations</b>		18,173	22,304	49,784	18,105	18,361
Finance cost	15	(3,464)	(3,247)	(5,179)	(2,108)	(718)
<b>Profit before income tax</b>	16	14,709	19,057	44,605	15,997	17,643
Income tax expense	19	(5,889)	(7,047)	(9,540)	(5,116)	–
<b>Net profit attributable to shareholders</b>		8,820	12,010	35,065	10,881	17,643
<b>Earnings per share (RMB cents)</b>						
– Basic	20	5.04	6.86	20.04	6.22	10.08

*See accompanying notes to financial statements.*

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**UNAUDITED PRO FORMA FINANCIAL INFORMATION  
OF FABCHEM CHINA LIMITED**

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**UNAUDITED PRO FORMA STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY OF THE GROUP**

	<u>Total</u> RMB'000
<b>Year ended 31 March 2005</b>	
Balance at 1 April 2004	19,367
Net profit for the year	35,065
Dividends (Note 22)	(4,821)
Foreign exchange translation gain	80
Effect of acquisition of restructuring agreement entered into (*)	(2,682)
Balance at 31 March 2005	47,009
	<u>Total</u> RMB'000
<b>Period ended 30 September 2004</b>	
Balance at 1 April 2004	19,367
Net profit for the period	10,881
Dividends (Note 22)	(4,821)
Balance at 30 September 2004	25,427
	<u>Total</u> RMB'000
<b>Period ended 30 September 2005</b>	
Balance at 1 April 2005	47,009
Net profit for the period	17,643
Foreign exchange translation gain	15
Effect of acquisition of restructuring agreement entered into (*)	(5,628)
Balance at 30 September 2005	59,039

(\*) The effect of acquisition of restructuring agreement entered into represents the net balance of certain assets and liabilities of the operations not taken up by the Group pursuant to the assets and business transfer agreement have been excluded from the unaudited pro forma consolidated financial statements.

*See accompanying notes to financial statements.*



**UNAUDITED PRO FORMA FINANCIAL INFORMATION  
OF FABCHEM CHINA LIMITED**

**UNAUDITED PRO FORMA CASH FLOW STATEMENT OF THE GROUP**

	Year ended <u>31 March</u> <u>2005</u> RMB'000	Period ended <u>30 September</u> <u>2004</u> <u>2005</u> RMB'000      RMB'000	
<b>Cash flows from operating activities</b>			
Profit before income tax	44,605	15,997	17,643
Adjustments for:			
Depreciation expense	859	422	447
Interest income	(835)	(248)	(2)
Interest expenses	5,179	2,108	718
Operating profit before working capital changes	49,808	18,279	18,806
Trade receivables	(43,105)	1,317	(381)
Other receivables and prepayments	(11,993)	8,777	(8,821)
Inventories	6,338	(2,975)	(8,839)
Trade payables and accrued liabilities	4,606	13,163	(567)
Other payables	6,602	7,315	2,617
Cash generated from operations	12,256	45,876	2,815
Income tax paid	(7,429)	66	–
Net cash from operating activities	4,827	45,942	2,815
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	(525)	(518)	(537)
Disposal of other investment	13	–	–
Interest received	835	248	2
Net cash from/(used in) investing activities	323	(270)	(535)
<b>Cash flows from financing activities</b>			
Increase in restricted bank deposits	(20,300)	(12,500)	–
Increase in short-term borrowings	45,600	(5,020)	20,000
Decrease in long-term borrowings	(23,200)	–	–
Proceeds from issuing shares	10,000	–	–
Interest paid	(5,179)	(2,108)	(718)
Dividend paid	(4,821)	(4,821)	–
Effect of acquisition of the restructuring agreement entered into	(2,682)	(3,027)	–
Net cash (used in)/from financing activities	(582)	(27,476)	19,282
Net effect of exchange rate changes in consolidating foreign currency financial statements	80	–	15
<b>Net increase in cash</b>	<b>4,648</b>	<b>18,196</b>	<b>21,577</b>
Cash at beginning of the period	914	914	682
<b>Cash at end of the period (Note 4)</b>	<b>5,562</b>	<b>19,110</b>	<b>22,259</b>

*See accompanying notes to financial statements.*

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## UNAUDITED PRO FORMA FINANCIAL INFORMATION OF FABCHEM CHINA LIMITED

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### NOTES TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE GROUP

#### 1. GENERAL

##### **The Company**

The Company is incorporated in Singapore on 12 October 2004. The pro forma financial information is expressed in Chinese Renminbi and are drawn up in accordance with the Singapore Financial Reporting Standards.

The Company is an investment holding company. The registered office address is 50 Raffles Place #29-00, Singapore Land Tower, Singapore 048623. The Company is domiciled in Singapore. The principal activities of its subsidiary are stated below.

As at 31 March 2005 and 30 September 2005 the Company is 70% owned by Fortsmith Investments Limited, incorporated in Samoa, which is also the Company's ultimate holding company.

##### **Restructuring exercise**

The pro forma financial statements of the Group were prepared based on a Restructuring Exercise (the "Restructuring Exercise") as set out on pages 47 to 48 of the Prospectus.

Upon completion of the Restructuring Exercise, the Company has the following subsidiary:-

Name	Date and place of incorporation	Principal activities	Issued and paid-up capital RMB'000	Effective interest held by the Group
Shandong Yinguang Technology Co., Ltd.	5 November 2004 PRC	Production and sale of industrial explosive products	35,000	100%

##### **Bases for the preparation and presentation of the pro forma financial information**

The pro forma financial information for the financial years ended 31 March 2003, 2004 and 2005 and for the 6 months ended 30 September 2005 as set out in this report, expressed in Chinese Renminbi, are prepared for illustrative purposes only and based on certain assumptions after making certain adjustments to show what –

- (a) the financial results of the Pro forma Group for the years ended 31 March 2003, 2004, 2005 and for the 6 months ended 30 September 2005 would have been if the Group structure as of the date of lodgement of the Prospectus had been in place since 1 April 2002;
- (b) the financial position of the Pro forma Group as of the dates of the balance sheets as at 31 March 2005 and as at 30 September 2005 would have been if the Group structure as of the date of lodgement of the Prospectus had been in place on those dates; and
- (c) the cash flows and changes in equity of the Pro forma Group for the financial year ended 31 March 2005 and for the 6 months ended 30 September 2005 would have been if the Group structure as of the date of lodgement of the Prospectus had been in place since 1 April 2004.

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## UNAUDITED PRO FORMA FINANCIAL INFORMATION OF FABCHEM CHINA LIMITED

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### NOTES TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE GROUP

#### 1. GENERAL (Cont'd)

The pro forma financial information is not necessarily indicative of the operations or cash flows or the related effects of the financial position that would have been attained in the event of the Pro forma Group actually existed earlier. Accordingly, because of their nature, the pro forma financial information may not give a true picture of the Pro forma Group's actual financial position or results or cash flows.

The pro forma financial information have been prepared in accordance with Singapore Financial Reporting Standards and the accounting policies of the Group set out in Note 2 of this report and shows:

- (a) the pro forma income statements of the Group for the three financial years ended 31 March 2003, 2004 and 2005 and for the 6 months ended 30 September 2005.
- (b) the pro forma balance sheets of the Group as at 31 March 2005 and as at 30 September 2005.
- (c) the pro forma statement of changes in shareholders' equity of the Group for the financial year ended 31 March 2005 and for the 6 months ended 30 September 2005.
- (d) the pro forma cash flow statements of the Group for the year ended 31 March 2005 and for the 6 months ended 30 September 2005.

The pro forma financial information were prepared from the following:

Name of companies	Financial year
Shandong Yinguang Chemical Industry Co., Ltd. <sup>(1)</sup>	Audited financial statements for the years ended 31 March 2003, 2004 and 2005
Shandong Yinguang Technology Co., Ltd. <sup>(2)</sup>	Audited financial statements for the period from 5 November 2004 (date of incorporation) to 31 March 2005
Fabchem China Pte. Ltd. <sup>(3)</sup>	Audited financial statement for the period from 12 October 2004 (date of incorporation) to 31 March 2005 and the unaudited consolidated financial statements for 6 months ended 30 September 2005

- (1) These financial statements were audited by Chio Lim & Associates, Singapore, a member of the Institute of Certified Public Accountants of Singapore, in accordance with the Singapore Standards of Auditing, for the purpose of preparing the financial information of the Pro forma Group. With effect from 11 January 2006, Chio Lim & Associates is now known as RSM Chio Lim.

The auditors' reports on the financial statements for the years ended 31 March 2003, 2004 and 2005 were qualified for non presentation of consolidated financial statements as required under Singapore Financial Reporting Standard 27 "Consolidated Financial Statements and Accounting for Investments in Subsidiaries". The qualification has no material impact on the amounts in Shandong Yinguang Chemical Industry Co., Ltd.'s financial statements from which were used for the preparation of the pro forma financial information.

The statutory financial statements for compliance with the laws of the PRC were audited by Shandong Tianhengxin Certified Public Accountants Co., Ltd (山东天恒信有限责任会计师事务所), a member of the Chinese Institute of Certified Public Accountants.

The auditors' report on these statutory financial statements was unqualified.

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## UNAUDITED PRO FORMA FINANCIAL INFORMATION OF FABCHEM CHINA LIMITED

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### NOTES TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE GROUP

#### 1. GENERAL (Cont'd)

- (2) These financial statements for the year ended 31 March 2005 were audited by Chio Lim & Associates, Singapore, a member of the Institute of Certified Public Accountants of Singapore, in accordance with the Singapore Standards of Auditing for the purpose of preparing the financial information of the Pro forma Group.

The auditors' report on these financial statements was unqualified.

- (3) These financial statements for the financial year ended 31 March 2005 and 6 months ended 30 September 2005 were audited and reviewed by Chio Lim & Associates Singapore, a member of the Institute of Certified Public Accountants of Singapore respectively. The auditors' report on these financial statements was unqualified. The financial statements for the financial year ended 31 March 2005 are the first set of financial statements of the Company since incorporation.

The unaudited consolidated financial statements for the 6 months ended 30 September 2005 have been reviewed by Chio Lim & Associates in accordance with the Singapore Standards on Review Engagements 2400. The comparatives for the 6 months ended 30 September 2004 have neither been audited nor reviewed by the auditors.

The audited or reviewed financial statements of the above entities used in the preparation of the pro forma financial information were prepared in accordance with Singapore Financial Reporting Standards.

#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies, which have been consistently applied in the preparation of the pro forma financial information set out in this Prospectus, are as follows:

**ACCOUNTING CONVENTION** – The pro forma financial information is prepared in accordance with the historical cost convention.

**BASIS OF PRESENTATION** – The Pro forma Group financial information includes the financial statements of the Company and its subsidiary for the years ended 31 March and for the 6 months period ended 30 September 2005. All significant intercompany balances and transactions have been eliminated on consolidation. The results of the subsidiary are included in the Pro forma Group financial information on the basis that the Pro forma Group had been in existence throughout the period covered by this report.

**REVENUE RECOGNITION** – Revenue from sale of goods is recognised when significant risks and rewards of ownership are transferred to the buyer and the amount of revenue and the costs of the transaction (including future costs) can be measured reliably. Revenue from rendering of services that are of short duration is recognised when the services are completed. Interest revenue is recognised on a time-proportion basis using the effective interest rate. Revenue is measured at the fair value of the consideration received or receivable, taking into account the amount of any trade discounts and volume rebates allowed by the entity.

**INVENTORIES** – Inventories are measured at the lower of cost and net realisable value. Costs incurred in bringing each product to its present location and condition are accounted for as follows:

Raw materials – purchase cost on a weighted average basis;

Finished goods and work-in-progress – cost of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

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## UNAUDITED PRO FORMA FINANCIAL INFORMATION OF FABCHEM CHINA LIMITED

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### NOTES TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE GROUP

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

**SUBSIDIARY** – In the Company's own financial statements, the investment in subsidiary is stated at cost less any provision for impairment in value which is other than temporary.

**PROPERTY, PLANT AND EQUIPMENT** – Plant and equipment are carried at cost less any accumulated depreciation and any accumulated impairment losses. Depreciation is provided on gross carrying amounts, after deducting residual value, in equal annual instalments over the estimated useful lives of the assets. The annual rates of depreciation are as follow:

Properties and improvements	–	4.8%
Plant and equipment	–	9.5% – 19%

Fully depreciated assets still in use are retained in the financial statements.

The residual value and the useful life of an asset are reviewed at least at each financial year end and, if expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate.

**IMPAIRMENT OF ASSETS** – At each reporting date an assessment is made whether there is any indication that a depreciable or amortisable asset may be impaired. If any such indication exists, an estimate is made of the recoverable amount of the asset. A provision is made for the excess of the carrying amount over the recoverable amount. The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use.

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

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

**BORROWING COSTS** – All borrowing costs are recognised as an expense in the period in which they are incurred.

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**UNAUDITED PRO FORMA FINANCIAL INFORMATION  
OF FABCHEM CHINA LIMITED**

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**NOTES TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE GROUP**

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

**INCOME TAX** – The Group accounts for income taxes using the asset and liability method which requires the recognition of taxes payable or refundable for the current year and deferred tax liabilities and assets for the future tax consequence of events that have been recognised in the financial statement or tax returns. The measurements of current and deferred tax liabilities and assets are based on provisions of the enacted tax laws; the effects of future changes in tax laws or rates are not anticipated. The measurement of deferred tax assets 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 liability is recognized for all taxable temporary differences, unless the deferred tax liability arises from (a) goodwill for which amortisation is not deductible for tax purposes; or (b) the initial recognition of an asset or liability in a transaction which (i) is not a business combination; and (ii) at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

**RETIREMENT BENEFITS COSTS** – Contributions to defined contribution retirement benefit plans are recorded as an expense as they fall due. Contributions made to state managed retirement benefit plans are dealt with as defined contribution retirement benefit plans.

**ACCOUNTING ESTIMATES** – The preparation of financial statements in conformity with generally accepted accounting principles requires the directors to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Apart from those involving estimations, management has made judgements in the process of applying the entity's accounting policies that have the most significant effect on the amounts recognised in the financial statements.

**LIABILITIES AND PROVISIONS** – A liability and 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. It is measured at the amount payable.

**CASH** – Cash for the cash flow statement includes cash and cash equivalents but excludes bank balances which have maturity of more than three month.

**LEASES** – Leases where the lessor effectively retains substantially all the risks and benefits of ownership of the leased assets are classified as operating leases. For operating leases, lease payments are recognised as an expense in the income statement on a straight line basis unless another systematic basis is representative of the time pattern of the user's benefit, even if the payments are not on that basis.

**GOVERNMENT GRANTS** – A government grant is recognised 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 taken to income in the same period as the related costs. Grants related to depreciable assets are allocated to income over the period in which such assets are used in the project subsidised by the grant. Government grants related to assets, including non-monetary grants at fair value, are presented in the balance sheet by deducting the grant in arriving at the carrying amount of the asset.

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## UNAUDITED PRO FORMA FINANCIAL INFORMATION OF FABCHEM CHINA LIMITED

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### NOTES TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE GROUP

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

**FAIR VALUE OF FINANCIAL INSTRUMENTS** – The carrying values of cash, accounts receivable, other current financial assets, short-term borrowings, accounts payable and other current financial liabilities approximate their fair values due to the short-term maturity of these instruments. The fair value of long-term debt was not determined as there are no significant items as at the end of the year. Those financial assets and liabilities that have a fixed maturity are measured at amortised cost using the effective interest rate method. Those that do not have a fixed maturity are measured at cost. All financial assets are subject to review for impairment.

#### **RISK MANAGEMENT POLICIES FOR FINANCIAL INSTRUMENTS**

**CREDIT RISK ON FINANCIAL ASSETS** – Financial assets that potentially subject the Group to concentrations of credit risk consist principally of cash, cash equivalents and trade and other accounts receivable. The directors believe that the financial risks associated with these financial instruments are minimal. The Group places its cash and cash equivalents with high credit quality institutions. The Group performs ongoing credit evaluation of its debtors' financial condition and maintains a provision for doubtful accounts receivable based upon the expected collectibility of accounts receivable. There is no significant concentration of credit risk, as the exposure is spread over a large number of counterparties and customers unless otherwise disclosed in the notes to the financial statements.

**OTHER RISKS ON FINANCIAL INSTRUMENTS** – The Group monitors its interest, foreign exchange risks, and changes in fair values from time to time and any gains and losses are included in the income statement. The Group is not exposed to interest rate price risk for financial instruments with a fixed interest rate and to interest rate or cash flow risk for financial instruments with a floating interest rate that is reset as market rates change. The Group is exposed to changes in foreign exchange rates. The Group does not utilise forward contracts or other arrangements to minimise these risks and it does not utilise forward contracts or other arrangements for trading or speculative purposes. At 31 March 2005 and 30 September 2005 there were no such arrangements, interest rate swap contracts or other derivative instruments outstanding. The financial assets and liabilities are mainly in Chinese Renminbi.

#### 3. RELATED PARTY TRANSACTIONS

Related parties are entities with common direct or indirect shareholders and or directors or management. Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operating decisions. They include individual persons.

Some of the Company's transactions and arrangements are with related parties and the effect of these on the basis determined between the parties are reflected in these financial statements. The balances are without fixed repayment terms and interest unless stated otherwise. It is impracticable to reliably estimate the fair value of the balances when there are no maturity dates and interest.

**UNAUDITED PRO FORMA FINANCIAL INFORMATION  
OF FABCHEM CHINA LIMITED**

**NOTES TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE GROUP**

3. RELATED PARTY TRANSACTIONS (Cont'd)

Significant related party transactions:

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

	<u>Year ended 31 March</u>			<u>Period ended 30 September</u>	
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue (*)	–	14,783	42,617	23,802	4,483
Purchase of goods	2,221	15,058	39,871	7,628	14,451
Management fees	1,132	–	–	–	–
Freight charges	145	1,254	1,191	878	1,069
Distribution costs	–	–	–	–	53
Rental expenses	3,000	3,000	3,000	1,500	1,500

(\*) Included in these amounts are export sales to overseas customers through a related party :

–	3,209	19,106	4,557	1,460
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4. CASH AND CASH EQUIVALENTS

	<u>31 March 2005</u> RMB'000	<u>30 September 2005</u> RMB'000
Not restricted in use	5,562	22,259
Restricted <sup>(1)</sup>	65,300	–
	<u>70,862</u>	<u>22,259</u>

(1) These are bank deposits held by bankers as a security for certain banking facilities (Note 9).

The rate of interest for the cash on interest earning accounts is 1.0%. The effective interest rate is about 1.0%

CASH AND CASH EQUIVALENTS IN THE CASH FLOW STATEMENT:

	<u>31 March 2005</u> RMB'000	<u>30 September 2005</u> RMB'000
As shown above	70,862	22,259
Restricted bank deposits	(65,300)	–
Cash and cash equivalents at end of year	<u>5,562</u>	<u>22,259</u>



**UNAUDITED PRO FORMA FINANCIAL INFORMATION  
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**NOTES TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE GROUP**

**5. TRADE RECEIVABLES**

	<u>31 March 2005</u> RMB'000	<u>30 September 2005</u> RMB'000
Related parties (Note 3)	29,872	11,721
Outside parties	78,826	36,304
Less: provision for impairment	(2,623)	–
	<u>106,075</u>	<u>48,025</u>
Movements in above provision:		
Balance at beginning of year	2,623	–
Used	–	–
	<u>2,623</u>	<u>–</u>
Balance at end of year	<u>2,623</u>	<u>–</u>

The general credit period granted to customers is about 90 days. A provision for impairment is established when there is objective evidence that management will not be able to collect all amounts due according to the original terms of receivables. The carrying amount of trade receivables approximates to their fair value. Short-duration receivables with no stated interest rate are normally measured at original invoice amount unless the effect of imputing interest would be significant.

Concentration of customers:

Top 1 customer	31,867	11,721
Top 2 customers	61,665	20,009
Top 3 customers	75,680	23,368

**6. OTHER RECEIVABLES AND PREPAYMENTS**

	<u>31 March 2005</u> RMB'000	<u>30 September 2005</u> RMB'000
Related parties (Note 3)	14,105	7,885
Loan to business associates <sup>(1)</sup>	8,763	–
Less: provision for impairment	(263)	–
Advances to suppliers	2,832	972
Advances to staff for business purposes	1,832	308
Deferred expenditure	1,000	2,096
Prepayment	212	35
	<u>28,481</u>	<u>11,296</u>
Movements in above provision:		
Balance at beginning of year	263	–
Used	–	–
	<u>263</u>	<u>–</u>
Balance at end of year	<u>263</u>	<u>–</u>

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

(1) These items are non-interest bearing and have no fixed repayment terms.

**UNAUDITED PRO FORMA FINANCIAL INFORMATION  
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**NOTES TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE GROUP**

**7. INVENTORIES**

	<u>31 March 2005</u> RMB'000	<u>30 September 2005</u> RMB'000
Finished goods at cost	5,918	4,694
Raw materials and consumables at cost	11,816	9,356
	<u>17,734</u>	<u>14,050</u>

**8. PROPERTY, PLANTS AND EQUIPMENT**

	<u>Properties and improvements</u> RMB'000	<u>Plant and equipment</u> RMB'000	<u>Construction in-progress</u> RMB'000	<u>Total</u> RMB'000
Cost:				
At 1 April 2004	–	8,774	–	8,774
Additions	–	525	–	525
	<u>–</u>	<u>9,299</u>	<u>–</u>	<u>9,299</u>
At 31 March 2005	–	9,299	–	9,299
Additions	16	487	34	537
	<u>16</u>	<u>9,786</u>	<u>34</u>	<u>9,836</u>
At 30 September 2005	16	9,786	34	9,836
Accumulated depreciation:				
At 1 April 2004	–	2,688	–	2,688
Depreciation for the year	–	859	–	859
	<u>–</u>	<u>3,547</u>	<u>–</u>	<u>3,547</u>
At 31 March 2005	–	3,547	–	3,547
Depreciation for the period	–	447	–	447
	<u>–</u>	<u>3,994</u>	<u>–</u>	<u>3,994</u>
At 30 September 2005	–	3,994	–	3,994
Net book value:				
At 1 April 2005	–	5,752	–	5,752
	<u>–</u>	<u>5,752</u>	<u>–</u>	<u>5,752</u>
At 30 September 2005	16	5,792	34	5,842
	<u>16</u>	<u>5,792</u>	<u>34</u>	<u>5,842</u>

**9. SHORT-TERM BORROWINGS**

	<u>30 March 2005</u> RMB'000	<u>30 September 2005</u> RMB'000
Bank loans (secured)	24,900	20,000
Bills payable to banks (secured)	96,700	–
	<u>121,600</u>	<u>20,000</u>

All the short-term borrowings are interest bearing. The bank loans are covered by assets pledged by related parties or corporate guarantees by a non-related company. The bills payable to banks are covered by cash deposits.

The secured bank loans are at interest rates varying from 5.3% to 12%. The above bills payable bear interest from 0.35% to 0.41% per year. The secured bank loans outstanding as at 30 September 2005 have been subsequently repaid in full.

**UNAUDITED PRO FORMA FINANCIAL INFORMATION  
OF FABCHEM CHINA LIMITED**

**NOTES TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE GROUP**

10. TRADE PAYABLES AND ACCRUED LIABILITIES

	<u>30 March 2005</u> RMB'000	<u>30 September 2005</u> RMB'000
Related parties (Note 3)	4,131	715
Outside parties and accrued liabilities	22,805	17,518
	<u>26,936</u>	<u>18,233</u>

The general credit period granted by suppliers is about 70 days.

11. OTHER PAYABLES

	<u>30 March 2005</u> RMB'000	<u>30 September 2005</u> RMB'000
Directors (Note 3)	555	2,094
Related parties (Note 3)	10,554	51
Advances from business associates	14,482	2,055
	<u>25,591</u>	<u>4,200</u>

The amount due to related parties and business associates is unsecured, without fixed repayment terms and interest.

12. REVENUE

	<u>Year ended 31 March</u>			<u>Period ended 30 September</u>	
	<u>2003</u> RMB'000	<u>2004</u> RMB'000	<u>2005</u> RMB'000	<u>2004</u> RMB'000	<u>2005</u> RMB'000
Sale of goods	<u>75,195</u>	<u>101,635</u>	<u>149,390</u>	<u>62,783</u>	<u>51,180</u>

13. OTHER INCOME

	<u>Year ended 31 March</u>			<u>Period ended 30 September</u>	
	<u>2003</u> RMB'000	<u>2004</u> RMB'000	<u>2005</u> RMB'000	<u>2004</u> RMB'000	<u>2005</u> RMB'000
Interest income from banks	64	208	835	248	2
Others	117	-	720	576	277
	<u>181</u>	<u>208</u>	<u>1,555</u>	<u>824</u>	<u>279</u>

**UNAUDITED PRO FORMA FINANCIAL INFORMATION  
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**NOTES TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE GROUP**

14. OTHER (CHARGES) / CREDITS

	<u>Year ended 31 March</u>			<u>Period ended 30 September</u>	
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Bad debts written off – trade receivables	(28)	(25)	–	–	–
Provision for impairment of trade receivables	(533)	(1,376)	–	–	–
Provision for impairment of other receivables	(676)	–	–	–	–
Provision for impairment of other receivables (reversal)	–	882	–	–	–
Government grants received	–	–	1,989	–	–
Others	–	–	(125)	–	–
	<u>(1,237)</u>	<u>(519)</u>	<u>1,864</u>	<u>–</u>	<u>–</u>

15. FINANCE COST

	<u>Year ended 31 March</u>			<u>Period ended 30 September</u>	
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Interest expense to non-related companies	<u>3,464</u>	<u>3,247</u>	<u>5,179</u>	<u>2,108</u>	<u>718</u>

16. PROFIT BEFORE INCOME TAX

	<u>Year ended 31 March</u>			<u>Period ended 30 September</u>	
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Directors' remuneration	153	154	102	62	28
Auditors' remuneration	50	181	80	25	65
Changes in inventories of finished goods (increase)	7,799	(3,560)	5,927	9,968	(2,822)
Raw materials and consumables used	<u>39,342</u>	<u>62,011</u>	<u>73,421</u>	<u>31,919</u>	<u>20,525</u>

17. STAFF COST

	<u>Year ended 31 March</u>			<u>Period ended 30 September</u>	
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Contributions to defined contribution plans	1,077	401	1,020	493	783
Staff costs including directors	5,040	6,126	6,070	2,824	3,863
Total staff costs	<u>6,117</u>	<u>6,527</u>	<u>7,090</u>	<u>3,317</u>	<u>4,646</u>

**UNAUDITED PRO FORMA FINANCIAL INFORMATION  
OF FABCHEM CHINA LIMITED**

**NOTES TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE GROUP**

18. NUMBER OF EMPLOYEES

	<u>Year ended 31 March</u>			<u>Period ended 30 September</u>	
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Number of employees (including directors) at end of the year	636	664	708	716	706

19. INCOME TAX

	<u>Year ended 31 March</u>			<u>Period ended 30 September</u>	
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Current	5,889	7,047	9,540	5,116	–

The income tax expense varied from the amount of income tax expense determined by applying the Singapore income tax rate of 22% in 2003, 20% in 2004 and 2005 to profit before income tax as a result of the following differences:

	<u>Year ended 31 March</u>			<u>Period ended 30 September</u>	
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Income tax expense at statutory rate	3,236	3,811	8,921	3,199	3,529
Non-allowable/(taxable) items	1,035	759	5,165	(163)	38
Effect of different tax rates in foreign country	1,618	2,477	5,799	2,080	2,318
Tax exemption on profits of a subsidiary	–	–	(10,345)	–	(5,885)
Total income tax expense	5,889	7,047	9,540	5,116	–

Under the Income Tax Law of the PRC concerning Foreign Investment Enterprises and Foreign Enterprises and various local income tax laws, foreign investment enterprises are subject to the statutory income tax rate of 33% (30% state income tax plus 3% local income tax) unless the enterprises are located in specially designated regions or cities in which more favourable tax rates apply. Certain companies of the Pro forma Group are located in a region where the tax rate of 33% applies. Certain entity is entitled to income tax exemption for the two years commencing from the first profitable financial year ending 31 December 2005 (after deducting losses carried forward) and a 50% reduction for the succeeding three years.

Temporary differences arising in connection with investment in subsidiary for which deferred tax liabilities have not been recognised are insignificant.

There is no income tax consequence of dividends to shareholders of the Company.

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## UNAUDITED PRO FORMA FINANCIAL INFORMATION OF FABCHEM CHINA LIMITED

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### NOTES TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE GROUP

#### 20. EARNINGS PER SHARE

Earnings per share for the financial years ended 31 March 2003, 2004, 2005 and for the 6 months ended 30 September 2004 and 2005 have been calculated based on the net profit attributable to shareholders for the year and on the basis that at the end of each financial year, the issued share capital of the Company comprised 175,000,000 ordinary shares which represents the pre-invitation share capital of the Company.

#### 21. STATEMENT OF OPERATIONS BY SEGMENT

##### **Segment reporting policy**

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

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

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

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

The Pro forma Group has one primary segment which is in the sale of industrial explosive products.

**UNAUDITED PRO FORMA FINANCIAL INFORMATION  
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**NOTES TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE GROUP**

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

**Geographical segments**

- (a) The following table provides an analysis of the Group revenue by geographical market which is analysed based on the locations of each individual customer:-

<u>Revenue</u>	<u>Year ended 31 March</u>			<u>Period ended 30 September</u>	
	<u>2003</u> RMB'000	<u>2004</u> RMB'000	<u>2005</u> RMB'000	<u>2004</u> RMB'000	<u>2005</u> RMB'000
Within PRC	43,397	57,807	74,598	22,427	29,100
<u>Outside PRC:</u>					
Sales through export distributors(*)	3,988	13,967	21,379	17,772	3,413
United States of America	12,674	20,413	33,012	13,199	–
Australia	14,519	9,448	16,369	8,012	17,207
Others (**)	617	–	4,032	1,373	1,460
	<u>75,195</u>	<u>101,635</u>	<u>149,390</u>	<u>62,783</u>	<u>51,180</u>

(\*) These were sales to export distributors in the PRC in which they export the products to their customers overseas. Complete information on these customers are not available, however these countries include Vietnam, Thailand and Mongolia.

(\*\*) Other markets mainly comprise South Africa, Kyrgyzstan and Pakistan.

- (b) The segment assets and capital expenditure, analysed by the geographical area in which assets are located:

<u>Year ended 31 March 2005</u>	<u>Carrying amount of segment assets</u> RMB'000	<u>Capital expenditure</u> RMB'000
Within PRC	227,744	525
Outside PRC	1,160	–
	<u>228,904</u>	<u>525</u>
<u>Period ended 30 September 2005</u>	<u>Carrying amount of segment assets</u> RMB'000	<u>Capital expenditure</u> RMB'000
Within PRC	99,033	519
Outside PRC	2,439	18
	<u>101,472</u>	<u>537</u>

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**UNAUDITED PRO FORMA FINANCIAL INFORMATION  
OF FABCHEM CHINA LIMITED**

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**NOTES TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE GROUP**

22. DIVIDENDS

- (a) On 29 June 2004, one of the Pro forma Group's company, Shandong Yinguang Chemical Industry Co., Ltd. paid a final dividend of RMB 0.12 per RMB 1.00 capital net of tax to their previous shareholders totalling RMB 4,821,000.
- (b) Final dividends of RMB 0.12 and RMB 0.10 per RMB 1.00 capital net of tax totalling RMB 4,821,000 and RMB 4,098,000 were paid by one of the Pro forma Group's company, Shandong Yinguang Chemical Industry Co., Ltd. for the years ended 31 March 2004 and 2003 respectively.

No other dividends have been paid by the Pro forma Group.

23. OPERATING LEASE COMMITMENTS

At the balance sheet date the commitments in respect of operating lease with a term of more than one year were as follows:

	<u>31 March 2005</u> RMB'000	<u>30 September 2005</u> RMB'000
Within one year	3,000	3,000
Within 2 – 5 years	4,750	3,250
	<u>          </u>	<u>          </u>
	Year ended <u>31 March 2005</u> RMB'000	Period ended <u>30 September 2005</u> RMB'000
Rental expense for the year	<u>3,000</u>	<u>1,500</u>

Operating lease payments to a related party represent rentals payable for certain of factory properties. The lease rental terms are negotiated for an average of 3 years.



**UNAUDITED PRO FORMA FINANCIAL INFORMATION  
OF FABCHEM CHINA LIMITED**

**NOTES TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE GROUP**

24. STATEMENT OF ADJUSTMENTS

The material adjustments made to the information used in the preparation of the pro forma financial information are as follows:

**Income Statement of the Pro forma Group**

	← Year ended 31 March 2003 →		
	Aggregated income statements of individual entities RMB'000	Pro forma adjustments (see notes below) RMB'000	Income Statement of Pro forma Group RMB'000
Revenue	75,195		75,195
Cost of sales	(43,996)	805 (2,948)	(a) (b) (46,139)
Gross profit	31,199		29,056
Other income	560	(43) (336)	(c) (d) 181
Distribution costs	(4,641)		(4,641)
Administrative expenses	(5,473)	339 (52)	(a) (b) (5,186)
Other charges	(1,712)	475	(e) (1,237)
<b>Profit from operations</b>	19,933		18,173
Finance costs	(3,800)	336	(d) (3,464)
Profit before income tax	16,133		14,709
Income tax expense	(6,359)	470	(h) (5,889)
<b>Net profit attributable to shareholders</b>	9,774		8,820

**UNAUDITED PRO FORMA FINANCIAL INFORMATION  
OF FABCHEM CHINA LIMITED**

**NOTES TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE GROUP**

24. STATEMENT OF ADJUSTMENTS(Cont'd)

**Income Statement of the Pro forma Group**

	← Year ended 31 March 2004 →		
	Aggregated income statements of individual entities RMB'000	Pro forma adjustments (see notes below) RMB'000	Income Statement of Pro forma Group RMB'000
Revenue	101,635		101,635
Cost of sales	(68,286)	848 (2,948)	(a) (b) (70,386)
Gross profit	33,349		31,249
Other income	2,683	(320) (2,155)	(c) (d) 208
Distribution costs	(4,379)		(4,379)
Administrative expenses	(4,824)	621 (52)	(a) (b) (4,255)
Other charges	(840)	95 226	(a) (e) (519)
<b>Profit from operations</b>	25,989		22,304
Finance costs	(5,402)	2,155	(d) (3,247)
<b>Profit before income tax</b>	20,587		19,057
Income tax expense	(7,552)	505	(h) (7,047)
<b>Net profit attributable to shareholders</b>	13,035		12,010

**UNAUDITED PRO FORMA FINANCIAL INFORMATION  
OF FABCHEM CHINA LIMITED**

**NOTES TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE GROUP**

24. STATEMENT OF ADJUSTMENTS(Cont'd)

**Income Statement of the Pro forma Group**

	← Year ended 31 March 2005 →		
	Aggregated income statements of individual entities RMB'000	Pro forma adjustments (see notes below) RMB'000	Income Statement of Pro forma Group RMB'000
Revenue	149,390		149,390
Cost of sales	(89,248)	1,227 (2,948)	(90,969) (a) (b)
Gross profit	60,142		58,421
Other income	22,031	(320) (3,503) (16,653)	1,555 (c) (d) (g)
Distribution costs	(6,509)		(6,509)
Administrative expenses	(23,279)	1,131 (52) 16,653	(5,547) (a) (b) (g)
Other credits	10,396	(270) (8,262)	1,864 (e) (f)
<b>Profit from operations</b>	<b>62,781</b>		<b>49,784</b>
Finance costs	(8,682)	3,503	(5,179) (d)
<b>Profit before income tax</b>	<b>54,099</b>		<b>44,605</b>
Income tax expense	(12,524)	2,984	(9,540) (h)
<b>Net profit attributable to shareholders</b>	<b>41,575</b>		<b>35,065</b>

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**UNAUDITED PRO FORMA FINANCIAL INFORMATION  
OF FABCHEM CHINA LIMITED**

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**NOTES TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE GROUP**

24. STATEMENT OF ADJUSTMENTS(Cont'd)

Notes:-

- (a) These represent exclusion of depreciation, amortisation charges and property and land use taxes relating to property, plant and equipment and land use rights not acquired by the Pro forma Group.
- (b) These represent imputed rental expenses for the use of buildings and land use rights not acquired by the Pro forma Group.
- (c) These represent exclusion of rental income derived from buildings not acquired by the Pro forma Group.
- (d) These represent finance income and costs on interest-bearing loans not used by the operations but obtained on a back-to-back basis to support the operations of certain related parties.
- (e) These represent exclusion of gain or loss on investments in associated companies and subsidiaries not acquired by the Pro forma Group.
- (f) This represents the exclusion of government grants received which are not relating to the industrial explosive products business.
- (g) These adjustments represent the elimination of inter-company transactions of the Pro forma Group.
- (h) These adjustments were made to reflect the income tax effect on the net profit of the Pro forma Group arising from the above adjustments.

**UNAUDITED PRO FORMA FINANCIAL INFORMATION  
OF FABCHEM CHINA LIMITED**

**NOTES TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE GROUP**

24. STATEMENT OF ADJUSTMENTS(Cont'd)

**Balance Sheet of the Pro forma Group**

	← Year ended 31 March 2005 →		
	Aggregated balance sheets of individual entities RMB'000	Pro forma adjustments (see notes below) RMB'000	Balance Sheet of Pro forma Group RMB'000
<b>ASSETS</b>			
<b>Current assets:</b>			
Cash and cash equivalents	70,862		70,862
Trade receivables	118,531	(12,456) (h)	106,075
Other receivables and prepayments	105,663	(684) (a)	28,481
		(9,048) (b)	
		(67,450) (c)	
Inventories	17,734		17,734
<b>Total current assets</b>	<b>312,790</b>		<b>223,152</b>
<b>Non-current assets:</b>			
Investment in subsidiaries	11,766	(1,500) (b)	–
		(10,266) (g)	
Other investments	510	(510) (b)	–
Plant and equipment	69,147	(63,395) (d)	5,752
<b>Total non-current assets</b>	<b>81,423</b>		<b>5,752</b>
<b>Total assets</b>	<b>394,213</b>		<b>228,904</b>

**UNAUDITED PRO FORMA FINANCIAL INFORMATION  
OF FABCHEM CHINA LIMITED**

**NOTES TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE GROUP**

24. STATEMENT OF ADJUSTMENTS(Cont'd)

**Balance Sheet of the Pro forma Group**

	← Year ended 31 March 2005 →		
	Aggregated balance sheets of individual entities RMB'000	Pro forma adjustments (see notes below) RMB'000	Balance Sheet of Pro forma Group RMB'000
<b>LIABILITIES AND EQUITY</b>			
<b>Current liabilities:</b>			
Short-term borrowings	189,050	(67,450) (c)	121,600
Trade payables and accrued liabilities	39,392	(12,456) (h)	26,936
Other payables	19,089	9,000 (e)	25,591
		(2,498) (b)	
Income tax payable	11,727	(3,959) (f)	7,768
<b>Total current liabilities</b>	<u>259,258</u>		<u>181,895</u>
Shareholders' equity	134,955	(684) (a)	47,009
		(8,560) (b)	
		(10,266) (g)	
		(63,395) (d)	
		(9,000) (e)	
		3,959 (f)	
<b>Total liabilities and equity</b>	<u><u>394,213</u></u>		<u><u>228,904</u></u>

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**UNAUDITED PRO FORMA FINANCIAL INFORMATION  
OF FABCHEM CHINA LIMITED**

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**NOTES TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE GROUP**

24. STATEMENT OF ADJUSTMENTS(Cont'd)

Notes:-

- (a) These adjustments represent exclusion of other receivables on rental income derived from buildings not acquired.
- (b) These adjustments represent exclusion of investments on associated companies and subsidiaries not acquired.
- (c) These adjustments represent exclusion of interest-bearing bank borrowings not used by the operations but obtained on a back-to-back basis to support the operations of related parties.
- (d) These adjustments represent exclusion of buildings, other fixed assets and land use rights not acquired.
- (e) These adjustments represent other payables on imputed rental expenses for rental of buildings and land use rights not acquired.
- (f) These adjustments were made to reflect the income tax effect on the net profit of the Pro forma Group arising from the above adjustments.
- (g) These adjustments represent elimination of cost of investments in subsidiary and its share capital upon consolidation.
- (h) These adjustments represent the elimination of inter-company balances of the Pro forma Group.

No pro forma adjustments required for the financial statements for the 6 months ended 30 September 2005 as these financial statements are prepared based on the actual Group's operations for the 6 months.

25. AUDITED FINANCIAL INFORMATION

No audited financial information of any entity within the Pro forma Group has been prepared for any period subsequent to 31 March 2005.

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## UNAUDITED PRO FORMA FINANCIAL INFORMATION OF FABCHEM CHINA LIMITED

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### NOTES TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE GROUP

#### 26. SUBSEQUENT EVENTS

On 30 January 2006, the Companies (Amendment) Act 2005 came into effect. The Act was amended, among others, to abolish the concepts of par value, authorised share capital, share premium, capital redemption reserve and share discounts. Pursuant to such amendments, the Company has an issued and paid up capital of S\$7,000,000, comprising 7,000,000 ordinary shares and has no authorised share capital.

At the Extraordinary General Meeting held on 23 February 2006, the shareholders approved, *inter alia*, the following:-

- (a) the sub-division of 7,000,000 ordinary shares with the issued and paid-up capital of \$7,000,000 in the Company into 175,000,000 ordinary shares (the "Sub-division");
- (b) the conversion of the Company into a public limited company and the change of its name to Fabchem China Limited;
- (c) the adoption of the new Articles of Association of the Company;
- (d) the issue of New Shares pursuant to the Invitation and subject to the terms and conditions of this Prospectus. The new shares, when issued and fully paid, will rank *pari passu* in all respects with the existing issued and fully paid up Shares; and
- (e) the authorisation to the directors, pursuant to section 161 of the Companies Act and the Articles of Association, to allot and issue in addition to the new shares, such further shares and/or convertible securities in the Company (whether by way of rights, bonus or otherwise) at any time and from time to time thereafter to such persons, and on such terms and conditions for such purposes as the directors may in their absolute discretion deem fit provided always that the aggregate number of shares and/or convertible securities to be issued shall not exceed 50 per cent. of the issued share capital of the Company, or which the aggregate number of shares and/or convertible securities to be issued other than a pro-rata basis to existing shareholders of the Company shall not exceed 20 per cent. of the issued share capital of the Company. For this purpose, the percentage of the issued share capital is based on the Company's post-invitation issued share capital, after adjusting for new shares arising from the conversion or exercise of any convertible securities, 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 the Listing Manual and any subsequent consolidation or sub-division of shares. And unless revoked or varied by the Company in general meeting, such general mandate shall continue in force until the conclusion of the next Annual General Meeting following the passing of the 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. But any authority may be previously revoked or varied by ordinary resolution of the shareholders in general meeting. The general mandate may be renewed, either unconditionally or subject to conditions.



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## GENERAL AND STATUTORY INFORMATION

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### Information On Directors And Executive Officers

1. None of our Directors or Executive Officers,
  - (a) has at any time during the last 10 years, had an application or a petition under any bankruptcy laws of any jurisdiction filed against him or against a partnership of which he was a partner at the time when he was a partner or at any time within 2 years from the date he ceased to be a partner;
  - (b) has at any time during the last 10 years, had an application or a petition under any law of any jurisdiction filed against an entity (not being a partnership) of which he was a director or an equivalent person or a key executive, at the time when he was a director or an equivalent person or a key executive of that entity or at any time within 2 years from the date he ceased to be a director or an equivalent person or a key executive of that entity, for the winding up or dissolution of that entity, or where that entity is the trustee of a business trust, that business trust, on the ground of insolvency;
  - (c) has any unsatisfied judgement against him;
  - (d) has ever been convicted of any offence, in Singapore or elsewhere, involving fraud or dishonesty which is punishable with imprisonment, or has been the subject of any criminal proceedings (including any pending criminal proceedings of which he is aware) for such purpose;
  - (e) has ever been convicted of any offence, in Singapore or elsewhere, involving a breach of any law or regulatory requirement that relates to the securities or futures industry in Singapore or elsewhere, or been the subject of any criminal proceedings (including any pending criminal proceedings of which he is aware) for such breach;
  - (f) has at any time during the last 10 years, had judgement entered against him in any civil proceeding in Singapore or elsewhere involving a breach of any law or regulatory requirement that relates to the securities or futures industry in Singapore or elsewhere, or a finding of fraud, misrepresentation or dishonesty on his part, or has been the subject of any civil proceedings (including any pending civil proceedings of which he is aware) involving an allegation of fraud, misrepresentation or dishonesty on his part;
  - (g) has ever been convicted in Singapore or elsewhere of any offence in connection with the formation or management of any entity or business trust;
  - (h) has ever been disqualified from acting as a director or an equivalent person of any entity (including the trustee of a business trust), or from taking part directly or indirectly in the management of any entity or business trust;
  - (i) has ever been subject to any order, judgement or ruling of any court, tribunal or governmental body, permanently or temporarily enjoining him from engaging in any type of business practice or activity;
  - (j) has ever, to his knowledge been concerned in Singapore or elsewhere with the management or conduct of affairs of (i) any corporation which has been investigated for a breach of any law or regulatory requirement governing corporations in Singapore or elsewhere; (ii) any entity (not being a corporation) which has been investigated for a breach of any law or regulatory requirement governing such entities in Singapore or elsewhere; (iii) any business trust which has been investigated for a breach of any law or regulatory requirement governing business trusts in Singapore or elsewhere; or (iv) any entity or business trusts which has been investigated for a breach of any law or regulatory requirement that relates to the securities or futures industry in Singapore or elsewhere, in connection with any matter occurring or arising during the period when he was so concerned with the entity or business trust; and

## GENERAL AND STATUTORY INFORMATION

- (k) has been the subject of any current or past investigation or disciplinary proceedings, or has been reprimanded or issued any warning, by the Authority or any other regulatory authority, exchange, professional body or government agency, whether in Singapore or elsewhere.
2. No option to subscribe for shares in, or debentures of, our Company or its subsidiary has been granted to, or was exercised by, any Director or Executive Officer of our Company or its subsidiary during the last financial year.

### Share Capital

3. As at the date of the Prospectus, there is only one class of Shares in the capital of our Company. The rights and privileges attached to our Shares are stated in our Articles of Association of the Company. Our Substantial Shareholders are not entitled to any different voting rights from other Shareholders. Our existing Shares do not carry any voting rights which are different from the voting rights of the New Shares. Save as disclosed herein, there were no changes in the issued and paid-up share capital of our Company or its subsidiary within the three years preceding the Latest Practicable Date.

Name of company / Date of issue	Number of shares issued	Par value (\$)	Purpose of issue	Resultant paid-up capital (\$)
<i>The Company</i>				
12 October 2004	2	1.00	Incorporation	2
22 March 2005	1,999,998	1.00	Capitalisation of loan	2,000,000
15 June 2005	5,000,000	1.00	Bonus issue	7,000,000

Name of company / Date of contribution of registered capital	Purpose of contribution	Amount (RMB)	Resultant registered capital (RMB)
<i>Yinguang Technology</i>			
5 November 2004	Initial registered capital	10,000,000	10,000,000
25 April 2005	Capitalisation of dividend payable	25,000,000	35,000,000

4. Save as disclosed above and in the sections entitled “Restructuring Exercise” and “General Information on our Group – Share Capital” in this Prospectus, no shares in, or debentures of, our Company or its subsidiary have been issued or are proposed to be issued, as fully paid or partly paid-up, for cash or for a consideration other than cash, within the three years preceding the date of lodgment of this Prospectus.
5. There has been no public take-over offers by any third party in respect of our Shares or by our Company in respect of shares of another corporation, which has occurred during the last and current financial year.

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## GENERAL AND STATUTORY INFORMATION

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### Articles of Association

6. The following provisions in the Articles of Association of our Company relate to *inter alia* the transfer of shares, voting rights of shareholders and Directors' shareholding qualification, remuneration, borrowing powers and voting rights on proposals, arrangements or contracts in which they are interested:-

**(1) *The following provisions of the Articles of Association of our Company relate to the remuneration, restrictions on voting rights and borrowing powers of the Directors.***

**(a) Directors' Remuneration**

Article 101(3)

An alternate Director shall be entitled to contract and be interested in and benefit from contracts, arrangements or transactions to the same extent mutatis mutandis as if he were a Director but he shall not be entitled to receive from our Company any remuneration in respect of his appointment as alternate Director except only such part (if any) of the remuneration otherwise payable to his appointor in which event any fee paid by our Company to an alternate Director shall be deducted from the fees of the Director appointing the alternate.

Article 102(1)

The Directors shall be entitled to receive by way of fees for their services as Directors in each year such sum as shall from time to time, subject to Section 169 of the Act, be determined by our Company by resolution passed at a General Meeting, the notice of which shall specify the proposals concerning the same. Such remuneration shall be divided amongst the Directors as they shall determine or failing agreement equally.

Article 102(2)

The fees payable to the Directors shall not be increased except pursuant to a resolution passed at a General Meeting, where notice of the proposed increase has been given in the notice convening the Meeting.

Article 102(3)

The remuneration of a non-Executive Director shall be by a fixed sum and not by a commission on or percentage of profits or turnover. The remuneration of an executive Director may not include a commission on or a percentage of turnover.

Article 102(4)

The provisions of this Article are without prejudice to the power of the Directors to appoint any of their number to be employee or agent of our Company at such remuneration and upon such terms as they think fit without the approval of the Members in General Meeting provided that such remuneration may include a commission on or percentage of profits but not a commission on or percentage of turnover.

Article 102(5)

Subject to the provisions of the Statutes, the Directors shall have power to pay and agree to pay pensions or other retirement, superannuation, death or disability benefits to (or to any person in respect of) any Director for the time being holding any executive office and for the purpose of providing any such pensions or other benefits to contribute to any scheme of fund to pay premiums.

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## GENERAL AND STATUTORY INFORMATION

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### Article 103

If any Director, being willing and having been called upon to do so, shall hold an executive office in our Company, shall render or perform extra or special services of any kind, including services on any committee established by the Directors, or shall travel or reside abroad for any business or purposes of our Company, he shall be entitled to receive such sum as the Directors may think fit for expenses, and also such remuneration as the Directors may think fit, either as a fixed sum or as provided in Article 102(3) (but not by way of commission on or percentage of turnover) and such remuneration may, as the Directors shall determine, be either in addition to or in substitution for any other remuneration he may be entitled to receive, and the same shall be charged as part of the ordinary working expenses of our Company.

### Article 105(3)

A Director may hold any other office or place of profit under our Company (other than the office of Auditor) in conjunction with his office of Director for such period and on such terms (as to remuneration and otherwise) as the Directors may determine. No Director or intending Director shall be disqualified by his office from contracting with our Company either with regard to his tenure of any such other office or place of profit or as a vendor, purchaser or otherwise. Subject to this Article 105, no such contract and no contract or arrangement entered into by or on behalf of our Company in which any Director is in any way interested shall be liable to be avoided nor shall any Director so contracting or being so interested be liable to account to our Company for any profit realised by any such contract or arrangement by reason of such Director holding that office or of the fiduciary relationship thereby established.

### Article 114

The Directors shall (subject to the provisions of any contract between the Managing Director and our Company) from time to time fix the remuneration of the Managing Director which may be by way of fixed salary, commission or participation in profits (but not turnover) of our Company or by any or all of these modes.

## (b) **Restrictions on Voting Rights of Directors**

### Article 105(1)

A Director who is in any way whether directly or indirectly interested in a contract or proposed contract with our Company shall declare the nature of his interest at a meeting of the Directors in accordance with Section 156 of the Companies Act.

### Article 105(2)

A Director shall not vote in respect of any contract or proposed contract or arrangement with our Company in which he has directly or indirectly a personal material interest and if he shall do so his vote shall not be counted nor save as provided by Article 106 shall he be counted in the quorum present at the meeting.

### Article 105(3)

A Director may hold any other office or place of profit under our Company (other than the office of Auditor) in conjunction with his office of Director for such period and on such terms (as to remuneration and otherwise) as the Directors may determine. No Director or intending Director shall be disqualified by his office from contracting with our Company either with regard to his tenure of any such other office or place of profit or as a vendor, purchaser or otherwise. Subject to this Article 105, no such contract or arrangement entered into by or on behalf of our Company in which any Director is in

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## GENERAL AND STATUTORY INFORMATION

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any way interested shall be liable to be avoided nor shall any Director so contracting or being so interested be liable to account to our Company for any profit realised by any such contract or arrangement by reason of such Director holding that office or of the fiduciary relationship thereby established.

### Article 106

Subject to Article 105(2) above, a Director notwithstanding his interest may be counted in the quorum present at any meeting whereat he or any other Director is appointed to hold any such office or place of profit under our Company or whereat the terms of any such appointment are arranged.

### (c) **Borrowing Powers of Directors**

#### Article 62

The Directors may, from time to time, exercise all the powers of our Company to raise or borrow or secure the payment of any sum or sums of moneys for the purposes of our Company.

#### Article 63

The Directors may raise or secure the repayment of such sum or sums in such manner and upon such terms and conditions in all respects as they think fit, and, in particular, by the issue of debentures or debenture stock of our Company, perpetual or otherwise, charged upon or by mortgage charge or lien of and on the undertaking of the whole or any part of the property of our Company (both present and future), including its uncalled capital for the time being, or by making, accepting, endorsing or executing any cheque, promissory note or bill of exchange.

### (2) ***The following provisions of the Articles of Association of our Company relate to the variation of members' rights, the transfer of shares and voting rights of members:-***

#### (a) **Variation of Members' Rights**

##### Article 9

Subject to the provisions of the Statutes, all or any of the special rights or privileges for the time being attached to any preference share for the time being issued may from time to time (whether or not our Company is being wound up) be modified, affected, altered or abrogated and preference capital other than redeemable preference shares may be repaid if authorised by a Special Resolution passed by holders of such preference shares at a special meeting called for the purpose. To any such special meeting, all provisions of these Articles as to General Meetings of our Company shall mutatis mutandis apply but so that the necessary quorum shall be two persons at least holding or representing by proxy not less than one third of the issued preference shares concerned and that every holder of the preference shares concerned shall be entitled on a poll to one vote for every such share held by him and that any holder of the preference shares concerned present either in person or by proxy may demand a poll Provided Always that where the necessary majority for such a Special Resolution is not obtained at the meeting, consent in writing if obtained from holders of three-fourths of the preference shares concerned within two months of the meeting shall be as valid and effectual as a Special Resolution carried at the meeting.

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## GENERAL AND STATUTORY INFORMATION

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### Article 61

Subject to the Statutes and save as provided by these Articles, all or any of the special rights or privileges attached to any class of shares in the capital of our Company for the time being issued may, at any time, as well before as during liquidation, be modified, affected, altered or abrogated, either with the consent in writing of the holders of not less than three-fourths of the issued shares of the class or with the sanction of a Special Resolution passed at a separate General Meeting, but so that the quorum thereof shall be not less than two persons personally present and holding or representing by proxy one-third of issued shares of the class, and that any holder of shares of the class, present in person or by proxy, shall on a poll be entitled to one vote for each share of the class held or represented by him, and if at any adjourned meeting of such holders such quorum as aforesaid is not present, any two holders of shares of the class who are personally present shall be a quorum. The Directors shall comply with the provisions of Section 186 of the Act as to forwarding a copy of any such consent or Resolution to the Registrar of Companies.

### (b) **Transfer of Shares**

#### Article 40

Save as provided by these Articles, there shall be no restriction on the transfer of fully paid shares (except where required by law or by the rules, bye-laws or listing rules of the SGX-ST). All transfers of shares may be effected by way of book-entry in the Depository Register Provided Always that the legal title in the shares may be transferred by the registered holders thereof by an instrument of transfer in the form approved by the Directors and the SGX-ST. The instrument of transfer shall be left at the registered office of the Company accompanied by the certificate of the shares to be transferred and such other evidence (if any) as the Directors may reasonably require to show the right of the transferor to make the transfer. The transferor shall be deemed to remain the registered holder of the shares until the name of the transferee is entered in the Register in respect thereof.

#### Article 41

The instrument of transfer shall be signed both by the transferor and by the transferee, and it shall be witnessed Provided Always that an instrument of transfer in respect of which the transferee is the Depository shall be effective although not signed or witnessed by or on behalf of the Depository.

#### Article 42

Shares of different classes shall not be comprised in the same instrument of transfer.

#### Article 43

No share shall in any circumstances be transferred to any infant, bankrupt or person of unsound mind.

#### Article 44(1)

All instruments of transfer which are registered shall be retained by our Company, but any instrument of transfer which the Directors may refuse to register shall (except in any case of fraud) be returned to the party presenting the same.

#### Article 44(2)

Our Company shall be entitled to destroy:-

- (a) all instruments of transfer which have been registered at any time after the expiration of six years from the date of registration thereof;

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- (b) all dividend mandates and notifications of change of address at any time after the expiration of six years from the date of recording thereof; and
- (c) all share certificates which have been cancelled at any time after the expiration of six years from the date of the cancellation thereof.

### Article 44(3)

It shall be conclusively presumed in favour of our Company that every entry in the Register purporting to have been made on the basis of an instrument of transfer or other document so destroyed was duly and properly made and that:

- (a) every instrument of transfer so destroyed was a valid and effective instrument duly and properly registered;
- (b) every share certificate so destroyed was a valid and effective certificate duly and properly cancelled; and
- (c) every other document hereinbefore mentioned so destroyed was a valid and effective document;

in accordance with the recorded particulars thereof in the books or records of our Company.

### Article 44(4)

Articles 44(2) and 44(3) shall apply only to the destruction of a document in good faith and without notice of any claim (regardless of the parties thereto) to which the document might be relevant.

### Article 44(5)

Nothing contained in this Article 44 shall be construed as imposing upon our Company any liability in respect of the destruction of any such document earlier than as aforesaid or in any other circumstance which would not attach to our Company in the absence of this Article 44, and references in this Article 44 to the destruction of any document include references to the disposal thereof in any manner.

### Article 45

The Directors may decline to accept any instrument of transfer unless:-

- (a) all or any part of the stamp duty (if any) payable on each share transfer and such fee not exceeding two Singapore Dollars for each transfer or such other sum as may from time to time be prescribed by the Exchange is paid to our Company; and
- (b) such fee not exceeding two Singapore dollars as the Directors may from time to time determine is paid to our Company in respect of the registration of any instrument of transfer, probate, letters of administration, certificate of marriage or death, power of attorney or any document relating to or affecting the title to the shares.

### Article 46

The Directors may refuse to register the transfer of shares or allow the entry of or against a person's name in the Depository Register in respect of shares transferred or to be transferred to such person:-

- (a) which are not fully paid up; or

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(b) on which our Company has a lien.

### Article 47

If the Directors refuse to register any transfer of any share they shall, (where required by the Act and every other statute for the time being in force affecting our Company), serve on the transferor and transferee, within one month beginning with the day on which the transfer was lodged with our Company, a notice in writing informing each of them of such refusal and of the facts which are considered to justify the refusal.

### Article 48

The Register may be closed at such times and for such periods as the Directors may from time to time determine Provided Always that the Register shall not be closed for more than thirty days in any year Provided Always that our Company shall give prior notice of such closure as may be required to the SGX-ST stating the period and purpose or purposes for which such closure is to be made.

(c) **Alteration of Capital**

### Article 57

The Company in General Meeting may from time to time by Ordinary Resolution, whether all the shares for the time being issued have been fully paid up or not, increase its capital by the creation and issue of new shares, such aggregate increase of such amount and to be divided into shares of such respective amounts as the Company by the resolution authorising such increase shall direct.

### Article 58(1)

Unless otherwise determined by the Company in General Meeting or except as permitted under the Listing Manual, all new shares shall, before issue, be offered to such persons who as at the date of the offer are entitled to receive notices from the Company of General Meetings, in proportion, as nearly as the circumstances admit, to the amount of the existing shares to which they are entitled.

### Article 58(2)

The offer shall be made by notice specifying the number of shares offered and limiting a time within which the offer, if not accepted, will be deemed to be declined, and, after the expiration of that time, or on the receipt of an intimation from the person to whom the offer is made that he declines to accept the shares offered, the Directors may dispose of those shares in such manner as they think most beneficial to the Company. The Directors may likewise so dispose of any new shares which (by reason of the ratio which the new shares bear to shares held by persons entitled to an offer of new shares) cannot, in the opinion of the Directors, be conveniently offered in the manner hereinbefore provided.

### Article 59

Subject to any directions that may be given in accordance with the powers contained in the Memorandum of Association or these Articles, any capital raised by creation of new shares shall be considered as part of the original capital and all new shares shall be subject to the same provisions with reference to the payment of calls, transfer, transmission, forfeiture, lien and otherwise as if it had been part of the original capital.



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### Article 60(1)

The Company may by Ordinary Resolution:-

- (a) consolidate and divide all or any of its share capital; or
- (b) cancel the number of shares which at the date of the passing of the resolution have not been taken or agreed to be taken by any person and diminish the amount of its share capital by the amount of the shares so cancelled; or
- (c) sub-divide its existing shares or any of them. The resolution by which the subdivision is effected may determine that, as between the holders of the resulting shares, one or more of such shares may have any such preferred, deferred or other special rights or be subject to any restriction as the Company has power to attach to unissued or new shares; or
- (d) subject to the Act and every other statute for the time being in force affecting our Company, convert any class of shares into any other class of shares.

### Article 60(2)

The Company may by Special Resolution reduce its share capital, in any manner and with and subject to any requirement authorised and consent required by law.

(d) **Voting Rights of Members**

#### Article 10

Preference shareholders shall have the same rights as ordinary Members as regards the receiving of notices, reports and balance sheets and the attending of General Meetings of our Company. Preference shareholders shall also have the right to vote at any meeting convened for the purpose of reducing the capital of our Company or winding up or sanctioning the sale of the undertaking of our Company or where the proposal to be submitted to the meeting directly affects their rights and privileges or when the dividend on the preference shares is more than six months in arrears.

#### Article 13(3)

The joint holder first named in the Register or the Depository Register, as the case may be, shall as regards voting, proxy, service of notices and delivery of certificates and dividend warrants, be deemed to be the sole owner of such share.

#### Article 80

At every General Meeting a resolution put to the vote of the meeting shall be decided on a show of hands by the Members present in person and entitled to vote, unless before or upon the declaration of the result of the show of hands a poll be demanded by:-

- (a) the Chairman of the meeting; or
- (b) not less than two Members present in person or by proxy and entitled to vote; or

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- (c) a Member or Members present in person or by proxy, holding or representing, as the case may be:-
  - (i) not less than one-tenth of the total voting rights of all Members entitled to vote at the meeting; or
  - (ii) shares in our Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

### Article 81(1)

If a poll is duly demanded it shall be taken in such manner as the Chairman directs, and the results of the poll shall be deemed to be the resolution of the meeting at which the poll was demanded.

### Article 81(2)

No poll shall be demanded on the election of a Chairman of a meeting or on a question of adjournment. A poll demanded on any other question shall be taken at such time as the Chairman of the meeting directs.

### Article 82

Unless a poll be so demanded, a declaration by the Chairman of the meeting that a resolution has been carried, or has been carried by a particular majority, or lost, or not carried by a particular majority shall be conclusive, and an entry to that effect in the minute book of our Company shall be conclusive evidence thereof, without proof of the number or proportion of the votes recorded in favour of or against such resolution.

### Article 83(1)

No objection shall be raised as to the admissibility of any vote except at the meeting or adjourned meeting, as the case may be, at which the vote objected to is or may be given, tendered or cast, and every vote not disallowed at such meeting shall be valid for all purposes. Any such objection shall be referred to the Chairman of the meeting whose decision shall be final and conclusive.

### Article 83(2)

If any votes shall be counted which ought not to have been counted, or might have been rejected, the error shall not vitiate the result of the voting unless it be pointed out at the same meeting, or at any adjournment thereof, and unless in the opinion of the Chairman at the meeting or at any adjournment thereof as the case may be, it shall be of sufficient importance to vitiate the result of the voting.

### Article 84

In case of an equality of votes, whether on a show of hands or on a poll, the Chairman of the meeting at which the show of hands takes place or at which the poll is demanded, as the case may be, shall have a second or casting vote.

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### Article 85(1)

Subject to and without prejudice to any special privileges or restriction as to voting for the time being attached to any special class of shares for the time being forming part of the capital of our Company:-

- (a) every Member who is present in person or by proxy shall have one vote on a show of hands, the Chairman to decide which proxy shall be entitled to vote where a Member is represented by two proxies; and
- (b) every Member who is present in person or by proxy, in case of a poll, shall have one vote for every share which he holds or represents and upon which all calls or other sums due thereon to our Company have been paid.

### Article 85(2)

For the purpose of determining the number of votes which a Member, being a Depositor, or his proxy may cast at any General Meeting upon a poll being called, the number of shares held or represented shall, in relation to the shares of that Depositor, be the number of shares entered against his name in the Depository Register as at the Cut-Off Time as certified by the Depository to our Company.

### Article 86

In the case of joint holders the vote of the senior who tenders a vote whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders; and for this purpose seniority shall be determined by the order in which the names stand in the Register or the Depository Register, as the case may be.

### Article 87

Unless the Directors otherwise determine, no person other than a Member who shall have paid everything for the time being due from him and payable to our Company in respect of his shares, shall be entitled to be present or to vote on any question either personally or by proxy at any General Meeting.

### Article 88

A Member of unsound mind, or in respect of whom an order has been made by any Court having jurisdiction in lunacy, may vote, whether on a show of hands or on a poll by the committee, curator bonis, or other person in the nature of committee or curator bonis appointed by that Court, and any such committee, curator bonis, or other person may, on a poll, vote by proxy.

### Article 89

On a poll, votes may be given either personally or by proxy and a person entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

### Article 90(1)

A proxy need not be a Member.

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### Article 90(2)

A Member shall not be entitled to appoint more than two proxies to attend and vote at the same General Meeting Provided Always that where the Member is a Depositor, our Company shall be entitled and bound:-

- (a) to reject any instrument of proxy lodged if the Depositor is not shown to have any shares entered against his name in the Depository Register as at the Cut-Off Time as certified by the Depository to our Company;
- (b) to accept as the maximum number of votes which in aggregate the proxy or proxies appointed by the Depositor is or are able to cast on a poll a number which is the number of shares entered against the name of that Depositor in the Depository Register as at the Cut-Off Time as certified by the Depository to our Company, whether that number be greater or smaller than the number specified in any instrument of proxy executed by or on behalf of that Depositor; and
- (c) in determining rights to vote and other matters in respect of a completed instrument of proxy submitted to it, to have regard to the instructions (if any) given by and the notes (if any) set out in the instrument of proxy.

### Article 90(3)

In any case where a form of proxy appoints more than one proxy, the proportion of the shareholding concerned to be represented by each proxy shall be specified in the form of proxy. If no proportion is specified, our Company shall be entitled to treat the first named proxy as representing the entire number of shares entered against his name in the Depository Register and any second named proxy as an alternate to the first named or at our Company's option to treat the instrument of proxy as invalid.

### Article 91

Any corporation which is a Member may, by resolution of its directors or other governing body, authorise any person to act as its representative at any meetings of our Company or any class of Members of our Company, and such representative shall be entitled to exercise the same powers on behalf of the corporation which he represents as if he had been an individual shareholder.

### Article 92

An instrument appointing a proxy shall be in writing in any usual or common form (including the form approved from time to time by the Depository) or in any other form which the Directors may approve and:-

- (1) in the case of an individual shall be signed by the appointor or his attorney;
- (2) in the case of a corporation shall be either given under its common seal or signed on its behalf by an attorney or a duly authorised officer of the corporation.

### Article 93

Where an instrument appointing a proxy is signed on behalf of the appointor by an attorney, the letter or the power of attorney or other authority, if any, or a duly certified copy thereof shall (failing previous registration with our Company) if required by law, be duly stamped and be deposited at the registered office, not less than forty-eight hours before the time for holding the meeting or adjourned meeting at which the person named in the instrument proposes to vote and in default the instrument of proxy shall not be treated as valid.

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### Article 94

The signature on an instrument of proxy need not be witnessed.

### Article 95

A vote given in accordance with the terms of an instrument of proxy shall be valid notwithstanding the previous death of the principal or revocation of the proxy or transfer of the share in respect of which the vote is given Provided Always that no notice in writing of the death or revocation or transfer shall have been received at the registered office one hour at least before the time fixed for holding the meeting.

### Article 96

An instrument appointing a proxy shall be deemed to confer authority to demand or join in demanding a poll and to speak at the meeting.

### Article 97

Where the capital of our Company consists of shares of different monetary denominations, voting rights shall be prescribed in such manner that a unit of capital in each class, when reduced to a common denominator, shall carry the same voting power when such right is exercisable.

**(3) *The following provisions of the Articles of Association of our Company relate to the Dividend Rights***

### Article 135

The profits of our Company, subject to any special rights relating thereto created or authorised to be created by these Articles and subject to the provisions of these Articles as to the reserve fund shall be divisible among the Members in proportion to the amount of capital paid up on the shares held by them respectively.

### Article 136

Our Company in General Meeting may by Ordinary Resolution declare a dividend on or in respect of any share to the Members according to their rights and interest in the profits and may fix the time for payment. No larger dividend shall be declared than is recommended by the Directors but our Company in General Meeting may declare a smaller dividend.

### Article 137

No dividend shall be payable except out of the profits of our Company. No dividend shall carry interest.

### Article 138

The declaration of the Directors as to the net profits of our Company shall be conclusive.

### Article 139

The Directors may from time to time pay to the Members such interim dividends as in their judgement the position of our Company justifies provided no such dividends shall be declared more than once in six months.

### Article 140

The Directors may retain any dividends on which our Company has a lien and may apply the same in or towards satisfaction of the debts, liabilities, or engagements in respect of which the lien exists.

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### Article 141

A transfer of shares shall not pass the right to any dividend declared thereon before the registration of the transfer or the entry of the shares against the Depositor's name in the Depository Register, as the case may be.

### Article 142

Any General Meeting declaring a dividend may direct payment of such dividend wholly or in part by the distribution of specific assets, and in particular of wholly or partly paid-up shares, debentures, or debenture stock of the Company, or wholly or partly paid-up shares, debentures, or debenture stock of any other company, or in any one or more of such ways, and the Directors shall give effect to such resolution; and where any difficulty arises in regard to the distribution, they may settle the same as they think expedient, and in particular may issue fractional certificates, and may fix the value for distribution of such specific assets, or any part thereof and may determine that cash payments shall be made to any Member upon the footing of the value so fixed, in order to adjust the rights of all parties, and may vest any such specific assets in trustees upon such trusts for the persons entitled to the dividends as may seem expedient to the Directors. Where requisite, a proper contract shall be filed in accordance with Section 63 of the Companies Act, and the Directors may appoint any person to sign such contract on behalf of the persons entitled to the dividend, and such appointment shall be effective.

### Article 143

The Directors may retain the dividends payable upon shares in respect of which any person is under the provisions as to the transmissions of shares hereinbefore contained entitled to become a Member, or which any person under those provisions is entitled to transfer until such person shall become a Member in respect of such shares or shall duly transfer the same.

### Article 144

In case several persons are registered in the Register or entered in the Depository Register, as the case may be, as the holders of any share, any resolution of the Directors or the Company in General Meeting declaring a dividend on shares of any class may specify that the dividend shall be payable to such persons at the close of business on a particular date and thereupon the dividend shall be payable in accordance with their respective holdings so registered. Any person registered in the Register or in the Depository Register, as the case may be, as the holder or joint holder of any share or is entitled jointly to a share in consequence of the death or bankruptcy of the holder may give effectual receipts for dividends, bonuses, other moneys payable or properties distributable and payment on account of dividends on or in respect of such shares.

### Article 145

Notice of declaration of any dividend, whether interim or otherwise, may be given by advertisement.

### Article 146

Unless otherwise directed, any dividend may be paid by cheque, dividend warrant or Post Office Order, sent through the post to the registered address appearing in the Register or the Depository Register, as the case may be, of the Member or person entitled, or where two or more persons are registered in the Register or entered in the Depository Register, as the case may be, as joint holders or are entitled to the dividend as a result of the death or bankruptcy of the holder, to that one whose name shall stand first on the Register or the Depository Register, as the case may be, in respect thereof and every cheque, dividend

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warrant or Post Office Order so sent shall be made payable to the order of the person to whom it is sent or to any person and address as such Member(s) or persons(s) may direct in writing. The Company shall not be responsible for the loss of any cheque, dividend warrant or Post Office Order, which shall be sent by post duly addressed to and at the sole risk of the Member or person for whom it is intended. Payment of the cheque, dividend warrant or Post Office Order by the bank upon which they are respectively drawn shall be a full and valid discharge to the Company. Notwithstanding the provisions of these Articles, payment by the Company to the Depository of any dividend payable to a Depositor shall also be a full and valid discharge of the Company from liability to the Depositor in respect of that payment to the extent of the payment made to the Depository.

### Article 147

The Depository will hold all dividend unclaimed for six years after having been declared and paid before release to the Directors, and the Directors may invest or otherwise make use of the unclaimed dividends for the benefit of the Company until claimed.

**(4) *The following provisions of the Articles of Association of our Company relate to the appointment, retirement and removal of Directors.***

**(a) Appointment, Retirement and Removal of Directors**

#### Article 98

Until otherwise determined by a Special Resolution at a General Meeting, the number of Directors shall not be less than two or more than twenty. All the Directors of our Company shall be natural persons.

#### Article 100

A Director shall not be required to hold any share in our Company.

#### Article 101(1)

Any Director may at any time and from time to time appoint any other person approved by a majority of the Directors for the time being to be his alternate. An alternate Director shall be entitled (subject to his giving to our Company an address within the Republic of Singapore at which notices may be served on him) to receive notice of meetings of the Directors and to attend and vote as a Director at any such meeting at which the Director appointing him is not present, and generally at such meeting to exercise all the powers, rights, duties and authorities of the Director appointing him. Every person acting as an alternate Director shall be an officer of our Company and shall alone be responsible to our Company for his own acts and defaults and he shall not be deemed to be the agent of or for the Director appointing him. All the appointments and removals of alternate Directors made by any Director in pursuance of this Article, shall be in writing under the hand of the Director making the same and shall be sent to or left at the Office. A Director may not act as an alternate for another Director. A person may not act as an alternate Director for more than one Director of our Company.

#### Article 101(2)

An alternate Director may be removed by his appointor and the appointor (subject to the approval of the Directors) may appoint another in his place. An alternate Director may be removed from office by a resolution of the Directors, but he shall be entitled to vote on such resolution and he shall, ipso facto, cease to be an alternate Director if his appointor ceases for any reason to be a Director. The appointment of an alternate Director shall also determine on the happening of any event which, if he were a Director, would cause him to vacate such office.

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### Article 104(1)

The office of a Director shall be vacant if the Director:-

- (a) ceases to be a Director by virtue of the Statutes; or
- (b) becomes bankrupt or makes any arrangement or composition with his creditors generally; or
- (c) is or becomes prohibited from being a Director by reason of any order made under the Statutes; or
- (d) becomes of unsound mind or a person whose person or estate is liable to be dealt with in any way under any law relating to mental disorder; or
- (e) resigns his office by notice in writing to our Company; or
- (f) for more than six months is absent without permission of the Directors from meetings of the Directors held during that period and his alternate Director (if any) shall not during such period have attended in his stead; or
- (g) is directly or indirectly interested in any contract or proposed contract with our Company and fails to declare the nature of his interest in the manner required by the Statutes; or
- (h) if he is removed from office pursuant to the Statutes.

### Article 104(2)

The appointment of any Director to the office of Chairman or Deputy Chairman or Managing or Joint Managing or Deputy or Assistant Director shall automatically terminate if he ceases to be a Director but without prejudice to any claim for any damage or breach of any contract of service between him and our Company.

### Article 104(3)

The appointment of any Director to any other executive office shall automatically terminate if he ceases from any cause to be a Director only if the contract or resolution under which he holds office expressly so provides, in which case such termination shall be without prejudice to any claim for damages or breach of any contract of service between him and our Company.

### Article 107

At the Annual General Meeting in every year one-third of the Directors for the time being, or, if their number is not three or a multiple of three, then the number nearest to but not less than one-third, shall retire from office provided always that all Directors shall retire from office at least once every three years.

### Article 108

The Directors to retire in every year shall be those who have been longest in office since their last election, but as between persons who became Directors on the same day those to retire shall (unless they otherwise agree among themselves) be determined by lot.

### Article 109

Subject to the Statutes, a retiring Director shall be eligible for re-election at the meeting at which he retires.



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(b) **Nomination of Directors**

Article 110

A person who is not a retiring Director shall be eligible for election to office of Director at any General Meeting if some Member intending to propose him has, at least eleven clear days before the meeting, left at the Office of the company a notice in writing duly signed by the nominee, giving his consent to the nomination and signifying his candidature for the office, or the intention of such Member to propose him, Provided That in the case of a person recommended by the Directors for election, nine clear days' notice only shall be necessary, and notice of each and every candidature for election to the Board of Directors shall be served on the registered holders of shares at least seven days prior to the meeting at which the election is to take place.

Article 111

Our Company by Special Resolution in General Meeting may, from time to time, increase or reduce the number of Directors, and may alter their qualification, if any.

Article 112

The Directors may from time to time appoint one or more of their body to the office of Managing Director (or a person holding an equivalent position) for such period (not exceeding five years) and on such terms as they think fit, and subject to the terms of any agreement entered into in any particular case, may revoke such appointment. A Managing Director or a person holding an equivalent position shall be subject to the control of the Directors. A Director so appointed shall not, while holding that office be subject to retirement but his appointment shall be automatically determined if he ceases from any cause to be a Director.

Article 117

The Directors shall have power at any time and from time to time to appoint any other qualified person as a Director either to fill a casual vacancy or as an addition to the Board. But any Director so appointed shall hold office only until the next Annual General Meeting of our Company, and shall be eligible for re-election.

Article 118

Our Company may from time to time by Ordinary Resolution remove any Director before the expiration of his period of office, and may by an Ordinary Resolution appoint another person in his stead. The person so appointed shall continue to hold office until the next Annual General Meeting.

Article 125

The continuing Directors may act notwithstanding any vacancy in their body, but if and so long as their number is reduced below the minimum number fixed by or pursuant to these Articles, the continuing Directors may, except in an emergency, act for the purpose of increasing the number of Directors to such minimum number, or of summoning a General Meeting of our Company, notwithstanding that there shall not be a quorum, but for no other purpose.

(5) **Limitations on Rights to Hold or Vote Ordinary Shares**

There are no limitations imposed by Singapore law or by our Articles of Association on the rights of non-resident Shareholders to hold or vote on our ordinary shares.

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**(6) *Delaying, deferring or preventing change in control of the Company***

There is no provision in our Articles of Association which could have an effect of delaying, deferring or preventing a change in control of the Company and which could operate only with respect to a merger, acquisition or corporate restructuring involving the Company.

**Material Contracts**

7. The following contracts, not being contracts entered into in the ordinary course of business of our Company and our subsidiary have been entered into by our Company and our subsidiary within the two years preceding the date of this Prospectus and are or may be material:-
- (a) Sale and Purchase Agreement dated 16 October 2004 (and as supplemented by a supplementary agreement dated 8 April 2005) between our Company and our Directors Sun Bowen and Bao Hongwei, our Executive Officers Yang Xingdong and Chen Hongyu and another PRC individual Wong Jian pursuant to which the Company acquired the entire equity interests in Yinguang Technology with effect from 1 November 2004 for an aggregate consideration of S\$2.037 million. Please refer to the section entitled “Restructuring Exercise” in this Prospectus for further information.
  - (b) Business and Assets Transfer Agreement dated 6 November 2004 (and as supplemented by a supplementary agreement dated 8 April 2005) between Yinguang Chemical and Yinguang Technology whereby Yinguang Technology acquired the business and assets of Yinguang Chemical relating to the production and sales of commercial explosives with effect from 1 November 2004 for an aggregate consideration of approximately RMB 8 million.
  - (c) Depository Services Agreement dated 31 March 2006 between our Company and CDP pursuant to which CDP agreed to act as central depository for our Company’s securities for trades in the securities of the Company through the SGX-ST.
  - (d) Management and Underwriting Agreement dated 5 April 2006 referred to in paragraph 9 below.
  - (e) Placement Agreement dated 5 April 2006 referred to in paragraph 9 below.

**Litigation**

8. There are no legal or arbitration proceedings, including those which are pending or known to be contemplated, which may have or have had, in the last 12 months before the date of lodgment of this Prospectus with the Authority, a material effect on our Group’s financial position or profitability.

**Management, Underwriting And Placement Arrangements**

9. (a) Pursuant to the management and underwriting agreement (the “Management and Underwriting Agreement”) dated 5 April 2006, our Company appointed HL Bank to manage the Invitation and underwrite the Offer Shares. HL Bank will receive a management fee from our Company for its services rendered in connection with the Invitation.
- (b) Pursuant to the Management and Underwriting Agreement, HL Bank agreed to underwrite the Offer Shares for a commission of 2.25% of the Issue Price for each Offer Share payable by our Company pursuant to the Invitation.
- (c) Pursuant to the placement agreement (the “Placement Agreement”) dated 5 April 2006, HL Bank agreed to subscribe or procure subscriptions for the Placement Shares for a placement commission of 2.5% of the Issue Price for each Placement Share to be paid by our Company.
- (d) Subscribers of Placement Shares (including Reserved Shares) may be required to pay a placement commission of up to 1% of the Issue Price to the Placement Agent.

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- (e) Brokerage will be paid by our Company to members of the SGX-ST, merchant banks and members of the Association of Banks in Singapore in respect of accepted applications made on Application Forms bearing their respective stamps, or to Participating Banks in respect of successful applications made through Electronic Applications at the ATMs or the internet banking websites of the relevant Participating Banks, at the rate of 0.25% of the Issue Price for each New Share, subject to such terms and conditions that may be prescribed by and agree with the Participating Banks from time to time.
  - (f) Save as aforesaid and under the section entitled "Plan of Distribution" in this Prospectus, no commission, discount or brokerage, has been paid or other special terms granted within the two years preceding the date of this Prospectus or is payable to any Director, promoter, expert, proposed Director or any other person for subscribing or agreeing to subscribe or procuring or agreeing to procure subscriptions for any shares in or debentures of our Company or our subsidiary.
  - (g) The Management and Underwriting Agreement may be terminated by HL Bank at any time on or before the closing of the Application List upon the occurrence of certain events including, *inter alia*,
    - (i) any introduction or any change in any legislation, regulation, order by any court, government body, regulatory authority or other competent authority;
    - (ii) any change or any development involving a prospective change in or any crisis in national or international financial markets, political, industrial, economic, legal or monetary conditions, taxation or exchange controls (including without limitation conditions in the stock markets, foreign exchange markets and conditions with respect to interest rates, in Singapore or overseas); or
    - (iii) any occurrence of hostilities, insurrection or armed conflict; or
    - (iv) the issue of a stop order by the Authority in accordance with Section 242 of the Securities and Futures Act;which event or events shall in the opinion of HL Bank, (1) result or be likely to result in a material adverse fluctuation or adverse conditions in the stock markets in Singapore and/ or overseas; or (2) be likely to prejudice the success of the Invitation; or (3) make it impracticable, inadvisable, inexpedient or not commercially viable for the Invitation to commence, be proceeded or completed; or (4) be likely to have a material adverse effect of the business, trading position, operations or prospects of our Company or of our Group as a whole; or (5) be such that no reasonable underwriter would have entered into the Management and Underwriting Agreement; or (6) make it not commercially viable or otherwise contrary to or outside the usual commercial practices of underwriters in Singapore for HL Bank to observe or perform or be obliged to observe or perform the terms of the Management and Underwriting Agreement.
  - (h) In the event the Management and Underwriting Agreement is terminated, our Company reserves the right, at the absolute discretion of our Directors, to cancel the Invitation.
  - (i) The Placement Agreement is conditional, *inter alia*, on the Management and Underwriting Agreement not having been terminated or rescinded pursuant to the provisions of the Management and Underwriting Agreement.
10. Save as disclosed under the preceding paragraph above, we do not have any material relationship with the Underwriter or other financial adviser in relation to the Invitation.

## GENERAL AND STATUTORY INFORMATION

### Miscellaneous

11. At the date of this Prospectus, the corporation listed below is, by virtue of Section 6 of the Companies Act (Chapter 50), deemed to be related to our Company:-

山东银光科技有限公司 (Shandong Yinguang Technology Co., Ltd)

12. Save as disclosed in sections entitled “Risk Factors”, “Management’s Discussion and Analysis of Results of Operations” and “Prospects and Future Plans – Trends” in this Prospectus, our Directors are not aware of any relevant material information including trading factors or risks not mentioned elsewhere in the Prospectus which is unlikely to be known or anticipated by the general public and which could materially affect the profits of our Company and its subsidiary.
13. Save as disclosed in the sections entitled “Risk Factors”, “Management’s Discussion and Analysis of Results of Operations”, “Capitalisation and Indebtedness” and “Prospects and Future Plans” in this Prospectus, the financial condition and operations of our Group are not likely to be affected by any of the following:-
- (a) known trends or known demands, commitments, events or uncertainties that will result in or are reasonably likely to result in our Group’s liquidity increasing or decreasing in any material way;
  - (b) material commitments for capital expenditures;
  - (c) unusual or infrequent events or transactions or any significant economic changes that may materially affect the amount of reported income from operations; and
  - (d) known trends or uncertainties that have had or that our Group reasonably expects to have a material favourable or unfavourable impact on revenues or operating income.
14. We currently have no intention of changing our Group’s present auditors or appointing joint auditors after the listing of our Company.
15. Details including the names, addresses and professional qualifications (including membership in a professional body) of our auditors since our incorporation are as follows:-

Financial year	Name, Membership and Address	Professional Body	Partner-in-charge/ Professional Qualification
FY2005 to current	Chio Lim & Associates* Certified Public Accountants, Singapore 18 Cross Street #08-01 Marsh & McLennan Centre Singapore 048423	Institute of Certified Public Accountants Singapore	Partner-in-charge: Ng Thiam Soon, FCPA

**Note:**

# With effect from 11 January 2006, Chio Lim & Associates became a member firm of RSM International and is now known as RSM Chio Lim.

16. No expert is engaged on a contingent basis by our Company or our Subsidiary, or has a material interest, whether direct or indirect, in our Shares or our Subsidiary or has a material economic interest, whether direct or indirect, in our Company including an interest in the success of this Invitation.
17. Save as disclosed in the section entitled “Subsequent Events” in the Independent Auditors’ Report on the Unaudited Pro forma Financial Information of Fabchem China Limited in this Prospectus, the Directors are not aware of any event which has occurred since the Latest Practicable Date which may have a material effect on the financial information provided in the Independent Auditors’ Report on the Unaudited Pro forma Financial Information of Fabchem China Limited.

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## GENERAL AND STATUTORY INFORMATION

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### Directors' Responsibility Statement

18. This Prospectus has been seen and approved by our Directors and they individually and collectively accept full responsibility for the accuracy of the information given herein and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, the facts stated and the opinions expressed in the Prospectus are fair and accurate in all material aspects as at the date of this Prospectus and there are no material facts the omission of which would make any statement in this Prospectus misleading and that this Prospectus constitutes full and true disclosure of all material facts about the Invitation and our Group.

### Consent

19. The Independent Auditors have given and have not withdrawn their written consent to the issue of this Prospectus with the inclusion herein of the Independent Auditors' Report on the Unaudited Pro forma Financial Information of Fabchem China Limited, the Report of the Auditors and Audited Financial Statements of Fabchem China Pte. Ltd. and Subsidiary for the Year Ended 31 March 2005, the Report of the Auditors and Audited Financial Statements of Shandong Yinguang Chemical Industry Co., Ltd for the Years Ended 31 March 2003, 31 March 2004 and 31 March 2005, and the Report of the Auditors and Unaudited Consolidated Financial Statements of Fabchem China Pte. Ltd. for the Six Months Ended 30 September 2005 in the form and context in which they appear in this Prospectus and references to their names in the form and context in which they appear in this Prospectus and to act in such capacity in relation to this Prospectus.
20. The Manager and Underwriter has given and has not withdrawn its written consent to the issue of this Prospectus with references to its name in the form and context in which it appears in this Prospectus and to act in such capacity in relation to this Prospectus.

### Documents Available For Inspection

21. Copies of the following documents may be inspected at 50 Raffles Place #29-00 Singapore Land Tower Singapore 048623 during normal business hours for a period of six months from the date of this Prospectus:-
- (a) the Memorandum and Articles of Association of our Company;
  - (b) the Independent Auditors' Report on the Unaudited Pro forma Financial Information of Fabchem China Limited as set out in this Prospectus;
  - (c) the Report of the Auditors and Audited Financial Statements of Fabchem China Pte. Ltd. and Subsidiary for the Year Ended 31 March 2005;
  - (d) the Report of the Auditors and Audited Financial Statements of Shandong Yinguang Chemical Industry Co., Ltd for the Years Ended 31 March 2003, 31 March 2004 and 31 March 2005;
  - (e) the Report of the Auditors and Unaudited Consolidated Financial Statements of Fabchem China Pte. Ltd. for the Six Months Ended 30 September 2005;
  - (f) the material contracts referred to in paragraph 7 above;
  - (g) the letters of consent referred to in paragraphs 19 and 20 above; and
  - (h) the Service Agreements set out in the section entitled "Directors, Management and Staff – Service Agreements" in this Prospectus.

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## **APPENDIX 1 : TERMS AND CONDITIONS AND PROCEDURES FOR APPLICATION AND ACCEPTANCE**

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You are invited to apply and subscribe for the New Shares at the Issue Price for each Offer Share and each Placement Share subject to the following terms and conditions:-

1. **YOUR APPLICATION MUST BE MADE IN LOTS OF 1,000 NEW SHARES AND INTEGRAL MULTIPLES THEREOF. YOUR APPLICATION FOR ANY OTHER NUMBER OF NEW SHARES WILL BE REJECTED.**
2. Your application for Offer Shares may be made by way of printed Offer Shares Application Forms or by way of Electronic Applications through ATMs of the Participating Banks (“ATM Electronic Applications”) or through Internet Banking (“IB”) web-sites of the relevant Participating Banks (“Internet Electronic Applications” which, together with ATM Electronic Applications, shall be referred to as “Electronic Applications”). Your application for the Placement Shares may only be made by way of Placement Shares Application Forms. Your application for the Reserved Shares may only be made by way of Reserved Shares Application Forms. **YOU MAY NOT USE CPF FUNDS TO APPLY FOR THE NEW SHARES.**
3. **You are allowed to submit only one application in your own name for the Offer Shares or the Placement Shares (other than Reserved Shares). If you submit an application for Offer Shares by way of an Application Form, you MAY NOT submit another application for Offer Shares by way of an Electronic Application and vice versa. Such separate applications shall be deemed to be multiple applications and shall be rejected. If you submit an application for Offer Shares by way of Internet Electronic Application, you MAY NOT submit another application for Offer Shares by way of ATM Electronic Application and vice versa. Such separate applications shall be deemed to be multiple applications and shall be rejected.**

If you (not being an approved nominee company) have submitted an application for Offer Shares in your own name, you should not submit any other application for Offer Shares, whether by way of an Application Form or by way of an Electronic Application, for any other person. Such separate applications shall be deemed to be multiple applications and shall be rejected.

If you have made an application for Placement Shares (other than Reserved Shares), you should not make any application for Offer Shares either by way of an Application Form or by way of an Electronic Application and vice versa. Such separate applications shall be deemed to be multiple applications and shall be rejected. Conversely, if you have made an application for Offer Shares either by way of an Electronic Application or by way of an Application Form, you may not make any application for Placement Shares. Such separate applications shall be deemed to be multiple applications and shall be rejected.

If you have made an application for Reserved Shares using the Reserved Shares Application Form, you may submit one separate application for the Offer Shares in your own name either by way of an Application Form or by way of an Electronic Application or submit one separate application for Placement Shares (other than Reserved Shares) provided that you adhere to the terms and conditions of this Prospectus. Such separate applications shall not be treated as multiple applications.

Joint applications shall be rejected. Multiple applications for New Shares shall be rejected. If you submit or procure submissions of multiple share applications for Offer Shares, Placement Shares or both Offer Shares and Placement Shares, you may be deemed to have committed an offence under the Penal Code, Chapter 224 of Singapore and the Securities and Futures Act, Chapter 289 of Singapore and your applications may be referred to the relevant authorities for investigation. Multiple applications or those appearing to be or suspected of being multiple applications will be liable to be rejected at our discretion.

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## APPENDIX 1 : TERMS AND CONDITIONS AND PROCEDURES FOR APPLICATION AND ACCEPTANCE

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4. We will not accept applications from any person under the age of 21 years, undischarged bankrupts, sole-proprietorships, partnerships, chops or non-corporate bodies, joint Securities Account holders of CDP and from applicants whose addresses (furnished in their Application Forms or, in the case of Electronic Applications, contained in the records of the relevant Participating Banks) bear post office box numbers.
5. We will not recognise the existence of a trust. Any application by a trustee or trustees must be made in his/their own name(s) and without qualification or, where the application is made by way of an Application Form, in the name(s) of an approved nominee company or approved nominee companies after complying with paragraph 6 below.
6. **WE WILL NOT ACCEPT APPLICATIONS FROM NOMINEES EXCEPT THOSE MADE BY APPROVED NOMINEE COMPANIES ONLY.** Approved nominee companies are defined as banks, merchant banks, finance companies, insurance companies, licensed securities dealers in Singapore and nominee companies controlled by them. Applications made by persons acting as nominees other than approved nominee companies shall be rejected.
7. **IF YOU ARE NOT A NOMINEE COMPANY, YOU MUST MAINTAIN A SECURITIES ACCOUNT WITH CDP IN YOUR OWN NAME AT THE TIME OF YOUR APPLICATION.** If you do not have an existing Securities Account with CDP in your own name at the time of your application, your application will be rejected (if you apply by way of an Application Form), or you will not be able to complete your Electronic Application (if you apply by way of an Electronic Application). If you have an existing Securities Account but fail to provide your Securities Account number or provide an incorrect Securities Account number in Section B of the Application Form or in your Electronic Application, as the case may be, your application is liable to be rejected. Subject to paragraph 8 below, your application shall be rejected if your particulars, such as name, NRIC/passport number, nationality and permanent residence status provided in your Application Form or in the records of the relevant Participating Bank at the time of your Electronic Application, as the case may be, differ from those particulars in your Securities Account as maintained with CDP. If you possess more than one individual direct Securities Account with CDP, your application shall be rejected.
8. **If your address as stated in the Application Form or, in the case of an Electronic Application, in the records of the relevant Participating Bank, as the case may be, is different from the address registered with CDP, you must inform CDP of your updated address promptly, failing which the notification letter on successful allotment will be sent to your address last registered with CDP.**
9. **We reserve the right to reject any application which does not conform strictly to the instructions set out in the Application Form and in this Prospectus or which does not comply with the instructions for Electronic Applications or with the terms and conditions of this Prospectus or, in the case of an application by way of an Application Form, which is illegible, incomplete, incorrectly completed or which is accompanied by an improperly drawn remittance. We further reserve the right to treat as valid any applications not completed or submitted or effected in all respects in accordance with the terms and conditions of this Prospectus and also to present for payment or other processes all remittances at any time after receipt and to have full access to all information relating to, or deriving from, such remittances or the processing thereof.**
10. We reserve the right to reject or to accept, in whole or in part, or to scale down or to ballot any application, without assigning any reason therefore, and we will not entertain any enquiry and/or correspondence on our decision. This right applies to applications made by way of Application Forms and by way of Electronic Applications. In deciding the basis of allotment, we will give due consideration to the desirability of allotting the New Shares to a reasonable number of applicants with a view to establishing an adequate market for the Shares.

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## APPENDIX 1 : TERMS AND CONDITIONS AND PROCEDURES FOR APPLICATION AND ACCEPTANCE

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11. Share certificates will be registered in the name of CDP and will be forwarded only to CDP. It is expected that CDP will send to you, at your own risk, within 15 Market Days after the close of the Application List, a statement of account stating that your Securities Account has been credited with the number of New Shares allotted to you. This will be the only acknowledgement of application moneys received and is not an acknowledgement by us. You irrevocably authorise CDP to complete and sign on your behalf as transferee or renounee any instrument of transfer and/or other documents required for the issue or transfer of the New Shares allotted to you. This authorisation applies to applications made by way of Application Forms and by way of Electronic Applications.
12. In the event that our Company lodges a supplementary or replacement prospectus pursuant to the Securities and Futures Act or any applicable legislation in force from time to time prior to the close of the Invitation, and the New Shares have not been issued, we will (as required by law) at our sole and absolute discretion either:-
  - (a) within 7 days of the lodgment of the supplementary or replacement prospectus, give you a copy of the supplementary or replacement prospectus, as the case may be, and provide you with an option to withdraw your application; or
  - (b) deem your application as withdrawn and cancelled and refund your application moneys (without interest or any share of revenue or other benefit arising therefrom) to you within 7 days from the lodgment of the supplementary or replacement prospectus.

In the event that at any time of the lodgment, the New Shares have already been issued but trading has not commenced, we will (as required by law) at our sole and absolute discretion either:-

- (a) within 7 days of the lodgment of the supplementary or replacement prospectus, give you a copy of the supplementary or replacement prospectus, as the case may be, and provide you with an option to return the New Shares; or
- (b) deem the issue of the New Shares as void and refund your payment for the New Shares (without interest or any share of revenue or other benefit arising therefrom) to you within 7 days from the lodgment of the supplementary or replacement prospectus.

Additional terms and instructions applicable upon the lodgment of the supplementary or replacement instructions, including instructions on how you can exercise the option to withdraw your application or return the New Shares allotted to you, may be found in such supplementary or replacement prospectus.

Where an applicant has notified us within 14 days from the date of lodgment of the supplementary or replacement prospectus of his wish to exercise his option under the Securities and Futures Act to withdraw his application or return the New Shares allotted to him, we shall pay to him all moneys paid by him on account of his application for the New Shares without interest or any share of revenue or other benefit arising therefrom and at his own risk, within 7 days from the receipt of such notification.

13. In the event of an under-subscription for Offer Shares as at the close of the Application List, we will make available that number of Offer Shares under-subscribed to satisfy applications for Placement Shares to the extent that there is an over-subscription for Placement Shares as at the close of the Application List.



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## APPENDIX 1 : TERMS AND CONDITIONS AND PROCEDURES FOR APPLICATION AND ACCEPTANCE

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In the event of an under-subscription for Placement Shares (including the Reserved Shares) as at the close of the Application List, we will make available that number of Placement Shares under-subscribed to satisfy applications for Offer Shares to the extent that there is an over-subscription for Offer Shares as at the close of the Application List. Any Reserved Shares not taken up will be made available first to satisfy excess applications for the Placement Shares to the extent that there is an over-subscription for the Placement Shares and then to satisfy excess applications for Offer Shares to the extent that there is an over-subscription for Offer Shares.

In the event of an over-subscription for Offer Shares as at the close of the Application List and Placement Shares (including the Reserved Shares) are fully subscribed or over-subscribed as at the close of the Application List, the successful applications for Offer Shares will be determined by ballot or otherwise as determined by our Directors in consultation with the Manager and approved by the SGX-ST.

In the event of an under-subscription for the Offer Shares and/or Placement Shares as at the close of the Application List, the number of Offer Shares and/or Placement Shares under-subscribed shall be subscribed by the Underwriter and/or Placement Agent respectively.

14. You irrevocably authorise CDP to disclose the outcome of your application, including the number of New Shares allotted to you pursuant to your application, to authorised operators.
15. Any reference to “you” or the “applicant” in this section shall include an individual, a corporation, an approved nominee and trustee applying for the Offer Shares by way of an Offer Shares Application Form or by way of an Electronic Application, or applying for the Placement Shares by way of a Placement Shares Application Form, or applying for the Reserved Shares by way of a Reserved Shares Application Form.
16. By completing and delivering an Application Form or by making and completing an Electronic Application by (in the case of an ATM Electronic Application) pressing the “Enter” or “OK” or “Confirm” or “Yes” key on the ATM (as the case may be) or by (in the case of an Internet Electronic Application) clicking “Submit” or “Continue” or “Yes” or “Confirm” or any other relevant key on the IB website screen (as the case may be) in accordance with the provisions of this Prospectus, you:-
  - (a) irrevocably offer to subscribe for the number of New Shares specified in your application (or such smaller number for which the application is accepted) at the Issue Price and agree that you will accept such New Shares as may be allotted to you, in each case on the terms of this Prospectus and on the terms of the conditions set out in this Prospectus and the Memorandum and Articles of Association of our Company;
  - (b) agree that in the event of any inconsistency between the terms and conditions for application set out in this Prospectus and those in the IB websites of or ATMs of the Participating Banks, the terms and conditions set out in this Prospectus shall prevail;
  - (c) agree that the aggregate Issue Price for the New Shares applied for is due and payable to the Company forthwith; and
  - (d) warrant the truth and accuracy of the information provided in your application.
17. Our acceptance of applications will be conditional upon, *inter alia*, we being satisfied that:-
  - (a) permission has been granted by the SGX-ST to deal in and for quotation for all our existing Shares and the New Shares on a “when issued” basis on the SGX-ST;
  - (b) no stop order has been issued by the Authority under the Securities and Futures Act; and

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## **APPENDIX 1 : TERMS AND CONDITIONS AND PROCEDURES FOR APPLICATION AND ACCEPTANCE**

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(c) the Management and Underwriting Agreement and the Placement Agreement referred to in the section entitled “General and Statutory Information – Management, Underwriting and Placement Arrangements” in this Prospectus have become unconditional and have not been terminated or cancelled prior to such date as our Company may determine.

18. We will not hold any applications in reserve.
19. We will not allot Shares on the basis of this Prospectus later than six months after the date of this Prospectus.
20. Additional terms and conditions for applications by way of Application Forms are set out on pages 1-5 to 1-8 of this Prospectus.
21. Additional terms and conditions for applications by way of Electronic Applications are set out on pages 1-8 to 1-15 of this Prospectus.

### **ADDITIONAL TERMS AND CONDITIONS FOR APPLICATIONS USING APPLICATION FORMS**

Applications by way of Application Forms shall be made on, and subject to, the terms and conditions of this Prospectus including but not limited to the terms and conditions appearing below and including those set out under the section entitled “TERMS AND CONDITIONS AND PROCEDURES FOR APPLICATION AND ACCEPTANCE” in this Prospectus, as well as our Memorandum and Articles of Association.

1. Applications for the Offer Shares must be made using the WHITE Application Forms and official envelopes “A” and “B”, accompanying and forming part of this Prospectus. Application for the Placement Shares (other than Reserved Shares) must be made using the BLUE Application Forms for the Placement Shares (other than Reserved Shares) and application for the Reserved Shares must be made using the PINK Application Forms for the Reserved Shares accompanying and forming part of this Prospectus.

Attention is drawn to the detailed instructions contained in the Application Forms and this Prospectus for the completion of the Application Forms which must be carefully followed. We reserve the right to reject applications which do not conform strictly to the instructions set out in the Application Forms and this Prospectus or to the terms and conditions of this Prospectus or which are illegible, incomplete, incorrectly completed or which are accompanied by improperly drawn remittances.

2. The Application Forms must be completed in English. Please type or write clearly in ink using BLOCK LETTERS. All spaces in the Application Forms except those under the heading “FOR OFFICIAL USE ONLY” must be completed and the words “NOT APPLICABLE” or “N.A.” should be written in any space not applicable.
3. Individuals, corporations, approved nominee companies and trustees must give their names in full. Applications must be made, in the case of individuals, in their full names appearing in their identity cards (if applicants have such identification documents) or in their passports and, in the case of corporations, in their full names as registered with a competent authority. An applicant, other than an individual, completing the Application Form under the hand of an official must state the name and capacity in which that official signs. A corporation completing the Application Form is required to affix its Common Seal (if any) in accordance with its Memorandum and Articles of Association or the equivalent constitutive documents of the corporation. If an application by a corporate applicant is successful, a copy of its Memorandum and Articles of Association or the equivalent constitutive document of the corporation must be lodged with our Share Registrar and Share Transfer Office. We reserve the right to require any applicant to manufacture documentary proof of identification for verification purposes.

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## APPENDIX 1 : TERMS AND CONDITIONS AND PROCEDURES FOR APPLICATION AND ACCEPTANCE

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4. Individual and corporate applicants, whether incorporated or unincorporated and wherever incorporated or constituted, will be required to declare whether they are citizens or permanent residents of Singapore or corporations in which citizens or permanent residents of Singapore or any body corporate constituted by any statute of Singapore have an interest in the aggregate of more than 50% of the issued share capital of or interests in such corporations. Approved nominee companies are required to declare whether the beneficial owner of the Shares is a citizen or permanent resident of Singapore or a corporation whether incorporated or unincorporated and wherever incorporated or constituted, in which citizens or permanent residents of Singapore or any body corporate whether incorporated or unincorporated and wherever incorporated or constituted by any statute of Singapore have an interest in the aggregate of more than 50% of the issued share capital of or interests in such corporation.
5.
  - (a) All applicants must complete Sections A and B and sign on page 1 of the Application Forms.
  - (b) All applicants are required to delete either paragraph 7(a) or 7(b) on page 1 of the Application Forms. Where paragraph 7(a) is deleted, the applicants must also complete Section C of the Application Forms with particulars of the beneficial owner(s).
  - (c) Applicants who fail to make the required declaration in paragraph 7(a) or 7(b) as the case may be, on page 1 of the Application Forms are liable to have their applications rejected.
6. Each application must be accompanied by a remittance in Singapore currency for the full amount payable, in respect of the number of New Shares applied for, in the form of a BANKER'S DRAFT or CASHIER'S ORDER drawn on a bank in Singapore, made out in favour of "**FABCHEM SHARE ISSUE ACCOUNT**", crossed "A/C PAYEE ONLY", with the name and address of the applicant written clearly on the reverse side. APPLICATIONS NOT ACCOMPANIED BY ANY PAYMENT OR ACCOMPANIED BY ANY OTHER FORM OF PAYMENT WILL NOT BE ACCEPTED. Remittances bearing "NOT TRANSFERABLE" or "NON TRANSFERABLE" crossings will be rejected. No acknowledgement of receipt will be issued by us or the Manager for applications or application moneys received.
7. It is expected that unsuccessful applications will be returned to the applicants (without interest or any share of revenue earned or other benefit arising therefrom) by ordinary post at the risk of the applicants within 24 hours after balloting. Where an application is rejected or accepted in part only, the full amount or the balance of the application moneys will be refunded to the applicant (without interest or any share of revenue earned or other benefit arising therefrom) by ordinary post at his own risk, within 14 days after the close of the Application List.
8. Capitalised terms used in the Application Forms and defined in this Prospectus shall bear the meanings assigned to them in this Prospectus.
9. In consideration of us having distributed the Application Form to the applicant and agreeing to close the Application List at 12:00 noon on 12 April 2006 or such later time or date as we may, in consultation with the Manager, decide and by completing and delivering the Application Form, each applicant agrees that:-
  - (a) his application is irrevocable;
  - (b) his remittance will be honoured on first presentation and that any application moneys returnable may be held pending clearance of his payment and he will not be entitled to any interest or any share of revenue or other benefit arising therefrom;

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## APPENDIX 1 : TERMS AND CONDITIONS AND PROCEDURES FOR APPLICATION AND ACCEPTANCE

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- (c) in respect of the New Shares for which his application has been received and not rejected, acceptance of his application shall be constituted by written notification by or on our behalf and not otherwise, notwithstanding any remittance being presented for payment by or on our behalf;
- (d) he will not be entitled to exercise any remedy of rescission for misrepresentation at any time after acceptance of his application;
- (e) all applications, acceptances and contracts resulting therefrom under the Invitation shall be governed by and construed in accordance with the laws of Singapore and that he irrevocably submits to the non-exclusive jurisdiction of the Singapore courts; and
- (f) reliance is placed solely on the information contained in this Prospectus and none of the Company, the Manager, the Underwriter, the Placement Agent or any other person involved in the Invitation shall have any liability for any information not so contained.

### Applications For Offer Shares

1. Your applications for Offer Shares **MUST** be made using the **WHITE** Offer Shares Application Forms and **WHITE** official envelopes "A" and "B". **ONLY ONE APPLICATION** should be enclosed in each envelope.
2. You must:-
  - (a) enclose the **WHITE** Offer Shares Application Form, duly completed and signed, together with your remittance in accordance with the terms and conditions of this Prospectus in the **WHITE** envelope "A" provided;
  - (b) in the appropriate spaces on **WHITE** envelope "A":-
    - (i) write your name and address;
    - (ii) state the number of Offer Shares applied for;
    - (iii) tick the relevant box to indicate the form of payment; and
    - (iv) affix adequate Singapore postage;
  - (c) SEAL **WHITE** ENVELOPE "A";
  - (d) write, in the special box provided on the larger **WHITE** envelope "B" addressed to **FABCHEM CHINA LIMITED C/O LIM ASSOCIATES (PTE) LTD, 10 COLLYER QUAY #19-08, OCEAN BUILDING, SINGAPORE 049315**, the number of Offer Shares you have applied for; and insert **WHITE** envelope "A" into **WHITE** envelope "B", seal **WHITE** envelope "B" and affix adequate Singapore postage and thereafter **DESPATCH BY ORDINARY POST OR DELIVER BY HAND** at your own risk to **FABCHEM CHINA LIMITED C/O LIM ASSOCIATES (PTE) LTD, 10 COLLYER QUAY #19-08, OCEAN BUILDING, SINGAPORE 049315**, to arrive by **12.00 noon on 12 April 2006** or such other time as we may, in consultation with the Manager, decide. **Local Urgent Mail or Registered Post must NOT be used**. No acknowledgement of receipt will be issued for any application or remittance received.
3. Applications that are illegible, incomplete or incorrectly completed or accompanied by improperly drawn remittances are liable to be rejected.

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## APPENDIX 1 : TERMS AND CONDITIONS AND PROCEDURES FOR APPLICATION AND ACCEPTANCE

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### Applications for Placement Shares (other than Reserved Shares)

1. Applications for Placement Shares (other than Reserved Shares) must be made using the **BLUE** Placement Shares Application Forms.
2. The completed **BLUE** Placement Shares Application Form and the applicant's remittance with the name and address of the applicant written clearly on the reverse side, must be enclosed and sealed in an envelope to be provided by the applicant. The sealed envelope must be **DESPATCHED BY ORDINARY POST OR DELIVERED BY HAND** at the applicant's own risk to **FABCHEM CHINA LIMITED C/O LIM ASSOCIATES (PTE) LTD, 10 COLLYER QUAY #19-08, OCEAN BUILDING, SINGAPORE 049315**, to arrive by **12:00 noon on 12 April 2006** or such later date and time as we may, in consultation with the Manager, decide. **Local Urgent Mail or Registered Post must NOT be used. ONLY ONE APPLICATION** should be enclosed in each envelope. No receipt or acknowledgement will be issued for any application or remittance received.

### Applications for Reserved Shares

1. Applications for Reserved Shares must be made using the **PINK** Reserved Shares Application Forms.
2. The completed **PINK** Reserved Shares Application Form and your remittance with your name and address written clearly on the reverse side, must be enclosed and sealed in an envelope to be provided by you. The sealed envelope must be **DESPATCHED BY ORDINARY POST OR DELIVERED BY HAND** at your own risk to **FABCHEM CHINA LIMITED C/O LIM ASSOCIATES (PTE) LTD, 10 COLLYER QUAY #19-08, OCEAN BUILDING, SINGAPORE 049315**, to arrive by **12:00 noon on 12 April 2006** or such later date and time as we may, in consultation with the Manager, decide. **Local Urgent Mail or Registered Post must NOT be used.** No acknowledgement of receipt will be issued for any application or remittance received. **ONLY ONE APPLICATION** should be enclosed in each envelope. No receipt or acknowledgement will be issued for any application or remittance received.
3. Applications that are illegible or incorrectly completed or accompanied by improperly drawn remittance are liable to be rejected.

### ADDITIONAL TERMS AND CONDITIONS FOR ELECTRONIC APPLICATIONS

The procedures for Electronic Applications are set out on the ATM screens (in the case of ATM Electronic Applications) and the IB website screens (in the case of Internet Electronic Applications) of the relevant Participating Banks. Currently, DBS Bank and the UOB Group are the only Participating Banks through which Internet Electronic Applications can be made. For illustration purposes, the procedures for Electronic Applications through ATMs of DBS Bank and the IB website of DBS Bank are set out respectively in the "Steps for Electronic Applications through ATMs of DBS Bank" and the "Steps for Electronic Application through the IB website of DBS Bank" (collectively the "Steps") appearing on pages 1-13 to 1-15 of this Prospectus. The Steps set out the actions that you must take at an ATM of DBS Bank or the IB website of DBS Bank to complete an Electronic Application. Please read carefully the terms of this Prospectus, the Steps and the terms and conditions for Electronic Applications set out below before making an Electronic Application. Any reference to "you" in the additional terms and conditions for Electronic Applications and the Steps shall refer to you making an application for Offer Shares through an ATM or the IB website of a relevant Participating Bank.

You must have an existing bank account with and be an ATM cardholder of one of the Participating Banks before you can make an Electronic Application at the ATMs. An ATM card issued by one Participating Bank cannot be used to apply for Offer Shares at an ATM belonging to other Participating Banks. For an Internet Electronic Application, you must have an existing bank account with and an IB User Identification ("User ID") and a Personal Identification Number/Password given by a relevant Participating Bank. The actions that you must take at ATMs or the IB websites of other Participating

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## **APPENDIX 1 : TERMS AND CONDITIONS AND PROCEDURES FOR APPLICATION AND ACCEPTANCE**

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Banks are set out on the ATM screens or the IB website screens of the relevant Participating Banks. Upon the completion of your Electronic Application transaction, you will receive an ATM transaction slip ("Transaction Record"), confirming the details of your Electronic Application. Upon completion of your Internet Electronic Application, there will be an on-screen confirmation ("Confirmation Screen") of the application which you can print out for your record. The Transaction Record or your printed record of the Confirmation Screen is for your retention and should not be submitted with any Application Form.

**You must ensure that you enter your own Securities Account number when using the ATM card issued to you in your own name. If you operate a joint bank account with any of the Participating Banks, you must ensure that you enter your own Securities Account number when using the ATM card issued to you in your own name. Using your own Securities Account number with an ATM card which is not issued to you in your own name will render your Electronic Application liable to be rejected.**

You must ensure, when making an Internet Electronic Application, that your mailing address is in Singapore and the application is being made in Singapore and you will be asked to declare accordingly. Otherwise, your application is liable to be rejected. You shall make an Electronic Application on the terms and subject to the conditions of this Prospectus including but not limited to the terms and conditions appearing below and those set out under the section entitled "TERMS AND CONDITIONS AND PROCEDURES FOR APPLICATION AND ACCEPTANCE" in this Prospectus as well as the Memorandum and Articles of Association of our Company.

1. In connection with your Electronic Application for Offer Shares, you are required to confirm statements to the following effect in the course of activating your Electronic Application:-
  - (a) **that you have received a copy of this Prospectus and have read, understood and agreed to all the terms and conditions of application for Offer Shares and this Prospectus prior to effecting the Electronic Application and agree to be bound by the same;**
  - (b) **that you consent to the disclosure of your name, NRIC/passport number, address, nationality, permanent resident status, CDP Securities Account number, CPF Investment account number (if applicable) and share application amount (the "Relevant Particulars") from your account with that Participating Bank to the Share Registrar, SGX-ST, CDP, CPF, SCCS, the Company and the Manager (the "Relevant Parties"); and**
  - (c) **that this is your only application and it is made in your own name and at your own risk.**

Your application will not be successfully completed and cannot be recorded as a completed transaction unless you press the "Enter" or "OK" or "Confirm" or "Yes" or any other relevant key in the ATM or click "OK" or "submit" or "Continue" or "Yes" or any other relevant key on the Internet screen. By doing so, you shall be treated as signifying your confirmation of each of the above three statements. In respect of statement 1(b) above, your confirmation, by pressing the "Enter" or "OK" or "Confirm" or "Yes" in the ATM or click "OK" or "submit" or "Continue" or "Yes" or any other relevant key on the Internet screen, shall signify and shall be treated as your written permission, given in accordance with the relevant laws of Singapore including Section 47(4) of the Banking Act (Chapter 19) of Singapore to the disclosure by that Participating Bank of the Relevant Particulars to the Relevant Parties.

**BY MAKING AN ELECTRONIC APPLICATION, YOU CONFIRM THAT YOU ARE NOT APPLYING FOR OFFER SHARES AS NOMINEE OF ANY OTHER PERSON AND THAT ANY ELECTRONIC APPLICATION THAT YOU MAKE IS THE ONLY APPLICATION MADE BY YOU AS BENEFICIAL OWNER.**

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## APPENDIX 1 : TERMS AND CONDITIONS AND PROCEDURES FOR APPLICATION AND ACCEPTANCE

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**YOU SHOULD MAKE ONLY ONE ELECTRONIC APPLICATION FOR OFFER SHARES AND SHOULD NOT MAKE ANY OTHER APPLICATION FOR OFFER SHARES, WHETHER AT THE ATM OR THE IB WEBSITES OF ANY PARTICIPATING BANK OR ON THE APPLICATION FORMS. IF YOU HAVE MADE AN APPLICATION FOR OFFER SHARES OR PLACEMENT SHARES ON AN APPLICATION FORM, YOU SHALL NOT MAKE AN ELECTRONIC APPLICATION FOR OFFER SHARES AND VICE VERSA.**

2. You must have sufficient funds in your bank account with your Participating Bank at the time you make your Electronic Application, failing which your Electronic Application will not be completed. **Any Electronic Application which does not conform strictly to the instructions set out on the screens of the ATM or IB website through which your Electronic Application is being made shall be rejected.**
3. You irrevocably agree and undertake to subscribe for and to accept the number of Offer Shares applied for as stated on the Transaction Record or any lesser number of Offer Shares that may be allotted to you in respect of your Electronic Application. In the event that we decide to allot any lesser number of such Offer Shares or not to allot any Offer Shares to you, you agree to accept such decision as final. If your Electronic Application is successful, your confirmation (by your action of pressing the “Enter” or “OK” or “Confirm” or “Yes” or any other relevant key on the ATM or clicking “Confirm” or “OK” or any other relevant key on the IB website screen) of the number of Offer Shares applied for shall signify and shall be treated as your acceptance of the number of Offer Shares that may be allotted to you and your agreement to be bound by the Memorandum and Articles of Association of our Company.
4. **We will not keep any applications in reserve.** Where your Electronic Application is unsuccessful, the full amount of the application moneys will be refunded in Singapore currency (without interest or any share of revenue or other benefit arising therefrom) to you by being automatically credited to your account with your Participating Bank within 24 hours after balloting. **Trading on a “WHEN ISSUED” basis, if applicable, is expected to commence after such refund has been made.**

Where your Electronic Application is rejected or accepted in part only, the full amount or the balance of the application moneys, as the case may be, will be refunded in Singapore currency (without interest or any share of revenue or other benefit arising therefrom) to you by being automatically credited to your account with your Participating Bank within 14 days after the close of the Application List.

**Responsibility for timely refund of application moneys arising from unsuccessful or partially successful Electronic Applications lies solely with the respective Participating Banks. Therefore, you are strongly advised to consult your Participating Bank as to the status of your Electronic Application and/or the refund of any moneys to you from unsuccessful or partially successful Electronic Application, to determine the exact number of Offer Shares allotted to you before trading the Offer Shares on the SGX-ST. Neither the SGX-ST, the CDP, the SCCS, the Participating Banks, ourselves or the Manager assume any responsibility for any loss that may be incurred as a result of you having to cover any net sell positions or from buy-in procedures activated by the SGX-ST.**

5. If your Electronic Application is made through the ATMs of the Participating Banks and is unsuccessful, no notification will be sent by such Participating Bank.

If your Internet Electronic Application made through the IB website of DBS Bank or the UOB Group is unsuccessful, no notification will be sent by such Participating Bank.

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## APPENDIX 1 : TERMS AND CONDITIONS AND PROCEDURES FOR APPLICATION AND ACCEPTANCE

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If you make Electronic Applications through the ATMs of the following banks or IB websites where applicable, you may check the results of your Electronic Applications as follows:-

Bank	Telephone	Available at ATM/Internet	Operating Hours	Service expected from
DBS Bank	1800 339 6666 (for POSB Account Holders)  1800 111 1111 (for DBS Bank Account Holders)	Internet Banking  www.dbs.com <sup>(2)</sup>	24 hours a day	Evening of the balloting day
UOB Group	1800 222 2121	ATM (Other Transactions – “IPO Enquiry”)  www.uobgroup.com <sup>(1)(2)</sup>	ATM / Phone Banking – 24 hours a day  Internet Banking – 24 hours a day	Evening of the balloting day  Evening of the balloting day
OCBC	1800 363 3333	ATM / Internet banking / Phone Banking	ATM – 24 hours a day	Evening of the balloting day

**Notes:-**

- (1) If you have made your Electronic Application through the ATM or IB website of UOB Group, you may check the results of your application through UOB Personal Internet Banking, UOB Group ATMs or UOB PhoneBanking services.
  - (2) If you have made your Internet Electronic Application through the IB websites of DBS Bank or UOB Group, you may check the results through the same channels listed in the table above in relation to ATM Electronic Applications made at ATMs of DBS Bank or UOB Group.
  - (3) If you have made your Electronic Application through the ATMs of OCBC, you may check the result of your application through OCBC Personal Internet Banking, OCBC ATMs or OCBC Phone Banking Services.
6. Electronic Applications shall close at **12.00 noon on 12 April 2006** or such other time as we may, in consultation with the Manager, decide. Subject to paragraph 8 below, an Internet Electronic Application is deemed to be received only upon its completion, that is, when there is an on-screen confirmation of the application.
  7. You are deemed to have requested and authorised us to:-
    - (a) register the Offer Shares allotted to you in the name of CDP for deposit into your Securities Account;
    - (b) send the relevant Share certificate(s) to CDP;
    - (c) return or refund (without interest or any share of revenue earned or other benefit arising therefrom) the application moneys in Singapore currency, should your Electronic Application be rejected, by automatically crediting your bank account with your Participating Bank with the relevant amount within 24 hours after balloting; and
    - (d) return or refund (without interest or any share of revenue or other benefit arising therefrom) the balance of the application moneys in Singapore currency, should your Electronic Application be accepted in part only, by automatically crediting your bank account with your Participating Bank with the relevant amount within 14 days after the close of the Application List.



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## APPENDIX 1 : TERMS AND CONDITIONS AND PROCEDURES FOR APPLICATION AND ACCEPTANCE

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8. You irrevocably agree and acknowledge that your Electronic Application is subject to risks of electrical, electronic, technical and computer-related faults and breakdowns, fires, acts of God and other events beyond the control of the Participating Banks and if, in any such event, we, the Manager and/or the relevant Participating Bank do not receive your Electronic Application, or data relating to your Electronic Application is lost, corrupted or not otherwise accessible, whether wholly or partially for whatever reason, you shall be deemed not to have made an Electronic Application and you shall have no claim whatsoever against us, the Manager and/or the relevant Participating Bank for Offer Shares applied for or for any compensation, loss or damage.
9. We do not recognise the existence of a trust. Any Electronic Application by a trustee must be made in your own name and without qualification. We will reject any application by any person acting as nominee.
10. All your particulars in the records of your Participating Bank at the time you make your Electronic Application shall be deemed to be true and correct and your Participating Bank and the Relevant Parties shall be entitled to rely on the accuracy thereof. If there has been any change in your particulars after making your Electronic Application, you shall promptly notify your Participating Bank.
11. **You should ensure that your personal particulars as recorded by both CDP and the relevant Participating Bank are correct and identical, otherwise, your Electronic Application is liable to be rejected.** You should promptly inform CDP of any change in address, failing which the notification letter on successful allotment will be sent to your address last registered with CDP.
12. In consideration of our Company making available the Electronic Application facility through the ATMs of the Participating Banks and agreeing to close the Application List at **12.00 noon on 12 April 2006** or such other time or date as our Directors may in consultation with the Manager, decide, and by making and completing an Electronic Application, you are deemed to have agreed that:-
  - (a) your Electronic Application is irrevocable;
  - (b) your Electronic Application, our acceptance and the contract resulting therefrom under the Invitation shall be governed by and construed in accordance with the laws of Singapore and you irrevocably submit to the non-exclusive jurisdiction of the Singapore courts;
  - (c) none of us, the Manager or the Participating Banks shall be liable for any delays, failures or inaccuracies in the recording, storage or in the transmission or delivery of data relating to your Electronic Application to us or CDP due to breakdowns or failure of transmission, delivery or communication facilities or any risks referred to in paragraph 8 above or to any cause beyond their respective controls;
  - (d) in respect of Offer Shares for which your Electronic Application has been successfully completed and not rejected, acceptance of your Electronic Application shall be constituted by written notification by or on our behalf and not otherwise, notwithstanding any payment received by or on our behalf;
  - (e) you will not be entitled to exercise any remedy of rescission for misrepresentation at any time after acceptance of your application; and
  - (f) reliance is placed solely on the information contained in this Prospectus and none of the Company, the Manager, the Underwriter, the Placement Agent or any other person involved in the Invitation shall have any liability for any information not so contained.

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## APPENDIX 1 : TERMS AND CONDITIONS AND PROCEDURES FOR APPLICATION AND ACCEPTANCE

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### Steps for Electronic Applications through ATMs of DBS Bank

Instructions for ATM Electronic Applications will appear on the ATM screens of the Participating Bank. For illustration purposes, the steps for making an ATM Electronic Application through a DBS Bank or POSB ATM are shown below. Certain words appearing on the screen are in abbreviated form (“A/c”, “amt”, “appln”, “&”, “I/C”, “SGX”, “No.” and “Max” refer to “Account”, “amount”, “application”, “and”, “NRIC”, “SGX-ST”, “Number” and “Maximum”, respectively). Instructions for ATM Electronic Applications on the ATM screens of Participating Banks (other than DBS Bank (including its POSB)) may differ slightly from those represented below.

- Step 1 : Insert your personal DBS Bank or POSB ATM Card.
- 2 : Enter your Personal Identification Number.
- 3 : Select “CASHCARD & MORE SERVICES”.
- 4 : Select “ESA-IPO SHARE/INVESTMENTS”.
- 5 : Select “ELECTRONIC SECURITY APPLN (IPOS/BONDS/ST-NOTES)”.
- 6 : Read and understand the following statements which will appear on the screen:-
- THE OFFER OF SECURITIES (OR UNITS OF SECURITIES) WILL BE MADE IN, OR ACCOMPANIED BY, A COPY OF THE PROSPECTUS/OFFER INFORMATION STATEMENT/DOCUMENT OR PROFILE STATEMENT (AND IF APPLICABLE, A COPY OF THE REPLACEMENT OR SUPPLEMENTARY PROSPECTUS/OFFER INFORMATION STATEMENT/DOCUMENT OR PROFILE STATEMENT) WHICH CAN BE OBTAINED FROM ANY DBS/POSB BRANCH IN SINGAPORE AND, WHERE APPLICABLE, THE VARIOUS PARTICIPATING BANKS DURING BANKING HOURS, SUBJECT TO AVAILABILITY.
  - ANYONE WISHING TO ACQUIRE THESE SECURITIES (OR UNITS OF SECURITIES) SHOULD READ THE PROSPECTUS/OFFER INFORMATION STATEMENT/DOCUMENT OR PROFILE STATEMENT (AS SUPPLEMENTED OR REPLACED, IF APPLICABLE) BEFORE SUBMITTING HIS APPLICATION WHICH WILL NEED TO BE MADE IN THE MANNER SET OUT IN THE PROSPECTUS/OFFER INFORMATION STATEMENT/DOCUMENT OR PROFILE STATEMENT (AS SUPPLEMENTED OR REPLACED, IF APPLICABLE). A COPY OF THE PROSPECTUS/OFFER INFORMATION STATEMENT/DOCUMENT OR PROFILE STATEMENT AND IF APPLICABLE, A COPY OF THE REPLACEMENT OR SUPPLEMENTARY PROSPECTUS/OFFER INFORMATION STATEMENT/DOCUMENT OR PROFILE STATEMENT HAS BEEN LODGED WITH AND REGISTERED BY THE MONETARY AUTHORITY OF SINGAPORE WHO ASSUMES NO RESPONSIBILITY FOR ITS OR THEIR CONTENTS.
  - Press the “ENTER” key to confirm that you have read and understood.
- 7 : Select “FABCHEM” to display details.
- 8 : Press the “ENTER” key to acknowledge:-
- **You have read, understood and agreed to all terms of the application and Prospectus/Offer Information Statement/Document or Profile Statement, and if applicable, the Replacement or Supplementary Prospectus/Offer Information Statement/Document or Profile Statement.**

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## APPENDIX 1 : TERMS AND CONDITIONS AND PROCEDURES FOR APPLICATION AND ACCEPTANCE

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- You consent to disclose your name, NRIC/Passport No., address, nationality, CDP Securities A/c No., CPF Investment A/c No., and securities application amount from your Bank A/c(s) to share registrars, SGX, SCCS, CDP, CPF and the issuer.
  - For FIXED and MAX price security application, this is your only application and it is made in your own name and at your own risk.
  - The maximum price for each share is payable in full on application and subject to refund if the final price is lower.
  - For TENDER security applications, this is your only application at the selected tender price and it is made in your own name and at your own risk.
  - You are not a US Person as referred to in the Prospectus/Offer Information Statement/Document or Profile Statement and if applicable, the Replacement or Supplementary Prospectus/Offer Information Statement/Document or Profile Statement.
- 9 : Select your nationality.
- 10 : Select the DBS Bank account (Autosave/Current/Savings/Savings Plus) or the POSB account (current/savings) from which to debit your application moneys.
- 11 : Enter the number of securities you wish to apply for using cash.
- 12 : Enter your own 12-digit CDP Securities Account number. (Note: This step will be omitted automatically if your CDP Securities Account number has already been stored in DBS Bank's records).
- 13 : Check the details of your securities application, your CDP Securities Account number and number of securities on the screen and press the "ENTER" key to confirm application.
- 14 : Remove the Transaction Record for your reference and retention only.

### Steps for Electronic Applications through the IB website of DBS Bank

For illustrative purposes, the steps for making an Internet Electronic Application through the DBS Bank IB website are shown below. Certain words appearing on the screen are in abbreviated form ("A/c", "amt", "&", "I/C", "SGX" and "No." refer to "Account", "Amount", "and", "NRIC", "SGX-ST" and "Number" respectively).

- Step 1 : Click on to DBS Bank website ([www.dbs.com](http://www.dbs.com)).
- 2 : Login to Internet Banking.
- 3 : Enter your User ID and PIN.
- 4 : Select "Electronic Security Application (ESA)".
- 5 : Click "Yes" to proceed and to warrant, *inter alia*, that you are currently in Singapore, you have observed and complied with all applicable laws and regulations and that your mailing address for DBS Internet Banking is in Singapore.
- 6 : Select your country of residence.

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## APPENDIX 1 : TERMS AND CONDITIONS AND PROCEDURES FOR APPLICATION AND ACCEPTANCE

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- 7 : Click on "FABCHEM" and click the "Submit" button.
- 8 : Click "Confirm" to confirm, *inter alia*:-
- (a) You have read, understood & agreed to all terms of this application and the Prospectus/Document or Profile Statement and if applicable, the Supplementary or Replacement Prospectus/Document or Profile Statement;
  - (b) You consent to disclose your name, I/C or Passport No., address, nationality, CDP Securities A/C No., CPF Investment A/C No. (if applicable) and securities application amount from your DBS/POSB Account(s) to registrars of securities, SGX, SCCS, CDP, CPF Board and issuer;
  - (c) You are not a US Person (as such term is defined in Regulation S under the United States Securities Act of 1933, as amended);
  - (d) You understand that the securities mentioned herein have not been and will not be registered under the United States securities law, and subject to certain exceptions, may not be offered or sold within the United States. There will be no public offer of the securities mentioned herein in the United States. Any failure to comply with this restriction may constitute a violation of the United States securities law;
  - (e) This application is made in your name and at your own risk; and
  - (f) For FIXED/MAX price securities application, this is your only application. For TENDER price securities application, this is your only application at the selected tender price.
- 9 : Fill in details for share application and click "Submit".
- 10 : Check the details of your securities application, your NRIC or passport number and click "OK" to confirm your application.
- 11 : Print Confirmation Screen (optional) for your reference & retention only.

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## APPENDIX 2 : SINGAPORE TAXATION

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*The discussion below is not intended to constitute a complete analysis of all tax consequences relating to ownership of our Shares. Prospective investors should consult their tax advisors concerning the tax consequences of their particular situations. This description is based on laws, regulations and interpretations now in effect and available as at the Latest Practicable Date. The laws, regulations and interpretations, however, may change at any time, and any change could be retroactive to the date of issuance of our Shares. These laws and regulations are also subject to various interpretations and the relevant tax authorities or the courts could later disagree with the explanations or conclusions set out below. It is emphasised that neither our Company, our Directors nor any other persons involved in this Invitation accepts responsibility for any tax effects or liabilities resulting from the subscription for, purchase, holding or disposal of our Shares.*

### INCOME TAX

#### **General**

Singapore resident taxpayers are subject to Singapore income tax on income accruing in or derived from Singapore and, subject to certain exceptions, on foreign income received or deemed received in Singapore.

In 2003, the Minister of Finance introduced the foreign-sourced income exemption regime, by which tax exemption will be granted to all foreign income in the form of dividends, branch profits and services income received or deemed received in Singapore on or after 1 June 2003. In the case of dividends, the exemption only applies if the following conditions are met:-

- the dividend is subject to tax of a similar character to income tax under the law of the jurisdiction from which the dividend is received;
- at the time the income is received in Singapore by the person resident in Singapore, the highest rate of tax in the jurisdiction from which the income is received is not less than 15.0%; and
- The Comptroller of Income Tax is satisfied that the exemption would be beneficial to the person resident in Singapore.

The government has introduced the following changes with effect from the year of assessment 2005 (that is, financial year ending in 2004):-

- all foreign-sourced income received in Singapore by individuals (other than income received through a partnership in Singapore) will be exempted from tax; and
- all Singapore-sourced investment income derived directly by individuals from financial instruments other than standard deposits (and provided such income is not derived through a partnership in Singapore and not considered as gains or profits from any trade, business or profession) will be exempted from tax.

A company is regarded as resident for Singapore tax purposes if the control and management of its business is exercised in Singapore (for example, if the board of directors meets and conducts the company's business in Singapore). An individual is regarded as resident in Singapore for tax purposes in a year of assessment if, in the preceding year, he was physically present in Singapore or exercised an employment in Singapore (other than as a director of a company) for 183 days or more in a calendar year, or if he resides in Singapore.

Non-resident corporate taxpayers are subject to Singapore income tax on income accruing in or derived from Singapore, and on foreign income received or deemed received in Singapore, subject to certain exceptions. Non-resident individuals, subject to certain exceptions, are subject to Singapore income tax only on the income accruing in or derived from Singapore.

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## APPENDIX 2 : SINGAPORE TAXATION

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The corporate tax rate in Singapore is 20.0% for the year of assessment 2006 (that is, financial year ending in 2005). In addition, 75.0% of up to the first \$10,000 of a company's chargeable income and 50.0% of up to the next \$90,000 of a company's chargeable income is exempt from corporate tax. The remaining chargeable income (after the partial tax exemption) is taxed at 20.0%. The partial tax exemption is not applicable to Singapore dividends received by companies.

For resident individuals, the applicable rate of tax varies according to the individual's circumstances but is subject to a current maximum rate of 21.0%. The maximum rate will be lowered to 20% with effect from the year of assessment 2007.

Subject to any applicable tax treaty, non-resident taxpayers are subject to withholding tax at the Singapore corporate tax rate on certain types of income deemed derived from Singapore. In the case of interest, royalties and rentals of moveable equipment, this is generally 15.0% or 10.0%, depending on the type of income.

### ***Dividend Distributions***

Prior to 1 January 2003, Singapore adopted the full imputation corporate taxation system. Under this system, the tax paid by a company at the prevailing corporate tax rate is in effect imputed to, and deemed to be paid on behalf of its shareholders. Shareholders will receive dividends net of such tax (also known as 'franked dividends') and they will be taxed on the gross amount of dividends (that is the cash amount plus a tax credit which represents corporate tax previously paid by the company). The tax paid by the company is available to its shareholders as a tax credit to offset their Singapore income tax liability on the gross amount of dividends received from the company and against their other Singapore tax liabilities. Any excess tax credit over the tax liability will be refundable.

With effect from 1 January 2003, Singapore introduced the one-tier corporate taxation system. Under this system, the tax assessed on a company on its normal chargeable income is a final tax and dividends paid by a Singapore resident company are tax-exempt in the hands of the shareholders. There will be no tax credits attached to such dividends (known as exempt (1-tier) dividends).

To enable resident companies with unutilised franking credits as at 31 December 2002 to utilise such credits to pay franked dividends to their shareholders, a 5-year transition period expiring on 31 December 2007 was introduced. During this transitional period, companies with unutilised Section 44 credit balances (comprising corporate tax previously paid which had not been used to frank dividends) may remain under the imputation system for the purpose of paying franked dividends. Shareholders who receive such franked dividends continue to be taxed on the gross dividends and continue to be eligible to claim a tax credit against tax liability.

Companies, however, have the irrevocable option to move on to the one-tier system at an earlier date before their Section 44 credit balances are exhausted. On 1 January 2008, all resident companies will automatically come under the ambit of the one-tier system.

There is no withholding tax on dividends paid to non-Singapore resident shareholders. Foreign shareholders are however advised to consult their own tax advisors to take into account the tax laws of their respective countries of residence and the existence of any double taxation agreement which their country of residence may have with Singapore.

### **CAPITAL GAINS TAX**

Singapore currently does not impose tax on capital gains. However, there are no specific laws or regulations which deal with the characterization of capital gains, hence, gains may be construed to be of an income nature and subject to tax especially if they arise from activities which the Inland Revenue Authority of Singapore ("IRAS") regards as the carrying on of a trade in Singapore.

Any profits from the disposal of shares if regarded as capital gains are not taxable in Singapore unless the taxpayer is regarded by IRAS as having derived these gains from the carrying on of a trade, in which case, the gains from disposal of shares would be regarded to be of an income nature and thus subject to Singapore income tax.

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## APPENDIX 2 : SINGAPORE TAXATION

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### STAMP DUTY

There is no stamp duty on the allotment or holding of shares. Where existing shares registered in Singapore are transferred however, stamp duty is payable on the instrument of transfer at the rate of \$2.00 for every \$1,000 or every part thereof of the market value of the shares or the consideration paid, whichever is higher. The purchaser is liable for stamp duty unless otherwise agreed. No stamp duty is payable if no instrument of transfer is executed or the instrument of transfer is executed outside Singapore. However, stamp duty may be payable if the instrument of transfer which is executed outside Singapore is received in Singapore. Stamp duty is, however, not applicable to electronic transfers of shares through the CDP.

### ESTATE DUTY

Singapore estate duty is imposed on the value of immovable property situated in Singapore owned by individuals who are not domiciled in Singapore. Movable assets of non-domiciles are exempted from estate duty. Singapore estate duty is imposed on the value of immovable property situated in Singapore (subject to specific exemption limits) and on certain movable property, wherever it may be, owned by individuals who are domiciled in Singapore.

Our Shares are considered to be movable property situated in Singapore as our Company is incorporated in Singapore and our share register is maintained in Singapore. Accordingly, our Shares held by an individual domiciled in Singapore are subject to Singapore estate duty upon such an individual's death.

Singapore estate duty is payable to the extent that the value of the shares aggregated with any other assets subject to Singapore estate duty, exceeds \$600,000. Any excess beyond \$600,000 will be taxed at 5.0% on the first \$12,000,000 of the individual's Singapore dutiable assets and thereafter at 10.0%. Certain assets although dutiable, are not included in this aggregation. For example, dwelling houses are assessed separately and subject to a different exemption limit.

Individuals should consult their tax advisors regarding the estate duty consequences of their ownership of our Shares.

### GOODS AND SERVICES TAX ("GST")

The sale of shares by an investor belonging in Singapore (regardless of whether it is registered for GST purposes), whether through an SGX-ST member or to another person belonging in Singapore is an exempt sale not subject to GST. Any GST that is directly or indirectly incurred by the investor in respect of this exempt sale will not be refundable and will become an additional cost to the investor.

Where a GST-registered investor sells share through an overseas exchange or to a person belonging outside Singapore, the sale is generally a taxable sale subject to GST at 0%. Any GST incurred by a GST-registered investor in the making of this taxable supply, which is zero-rated, in the course or furtherance of a business is claimable as a refund from the Comptroller of GST.

Services such as brokerage, handling and clearing services rendered by a GST-registered person to a Singapore investor belonging in Singapore in connection with the investor's purchase, sale or holding of the shares will be subject to GST at the rate of 5.0% with effect from 1 January 2004. Similar services rendered to an investor belonging outside Singapore would generally be subject to GST at 0%. This is based on the assumption that the investor is physically outside Singapore at the time the services are performed.

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## APPENDIX 3 : SUMMARY OF RELEVANT PRC LAWS AND REGULATIONS

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### 1. PRC legal system

The PRC legal system is based on the PRC Constitution and is made up of written laws, regulations and directives. Decided court cases do not constitute binding precedents.

The National People's Congress of the PRC ("NPC") and the Standing Committee of the NPC are empowered by the PRC Constitution to exercise the legislative power of the state. The NPC has the power to amend the PRC Constitution and to enact and amend primary laws governing the state organs, civil and criminal matters. The Standing Committee of the NPC is empowered to interpret, enact and amend laws other than those required to be enacted by the NPC.

The State Council of the PRC is the highest organ of state administration and has the power to enact administrative rules and regulations. Ministries and commissions under the State Council of the PRC are also vested with the power to issue orders, directives and regulations within the jurisdiction of their respective departments. Administrative rules, regulations, directives and orders promulgated by the State Council and its ministries and commissions must not be in conflict with the PRC Constitution or the national laws and, in the event that any conflict arises, the Standing Committee of the NPC has the power to annul such administrative rules, regulations, directives and orders.

At the regional level, the people's congresses of provinces and municipalities and their standing committees may enact local rules and regulations and the people's government may promulgate administrative rules and directives applicable to their own administrative area. These local laws and regulations may not be in conflict with the PRC Constitution, any national laws or any administrative rules and regulations promulgated by the State Council.

Rules, regulations or directives may be enacted or issued at the provincial or municipal level or by the State Council of the PRC or its ministries and commissions in the first instance for experimental purposes. After sufficient experience has been gained, the State Council may submit legislative proposals to be considered by the NPC or the Standing Committee of the NPC for enactment at the national level.

The power to interpret laws is vested by the PRC Constitution in the Standing Committee of the NPC. According to the Decision of the Standing Committee of the NPC Regarding the Strengthening of Interpretation of Laws (全国人民代表大会常务委员会关于加强法律解释工作的决议) passed on 10th June, 1981, the Supreme People's Court has the power to give general interpretation on application of laws in judicial proceedings apart from its power to issue specific interpretation in specific cases. The State Council and its ministries and commissions are also vested with the power to give interpretation of the rules and regulations which they promulgated. At the regional level, the power to give interpretation of regional laws is vested in the regional legislative and administration organs which promulgate such laws. All such interpretations carry legal effect.

### 2. Judicial system

The People's Courts are the judicial organs of the PRC. Under the PRC Constitution (中华人民共和国宪法) and the Law of Organisation of the People's Courts of the People's Republic of China (中华人民共和国人民法院组织法), the People's Courts comprise the Supreme People's Court, the local people's courts, military courts and other special people's courts. The local people's courts are divided into three levels, namely, the basic people's courts, intermediate people's courts and higher people's courts. The basic people's courts are divided into civil, criminal, administrative and economic divisions. The intermediate people's courts have divisions similar to those of the basic people's courts and, where the circumstances so warrant, may have other special divisions (such as intellectual property divisions). The judicial functions of people's courts at lower levels are subject to supervision of people's courts at higher levels. The people's procuratorates also have the right to exercise legal supervision over the proceedings of people's courts of the same and lower levels. The Supreme People's Court is the highest judicial organ of the PRC. It supervises the administration of justice by the people's courts of all levels.



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## APPENDIX 3 : SUMMARY OF RELEVANT PRC LAWS AND REGULATIONS

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The people's courts adopt a two-tier final appeal system. A party may before the taking effect of a judgment or order appeal against the judgment or order of the first instance of a local people's court to the people's court at the next higher level. Judgments or orders of the second instance of the same level and at the next higher level are final and binding. Judgments or orders of the first instance of the Supreme People's Court are also final and binding. If, however, the Supreme People's Court or a people's court at a higher level finds an error in a final and binding judgment which has taken effect in any people's court at a lower level, or the presiding judge of a people's court finds an error in a final and binding judgment which has taken effect in the court over which he presides, a retrial of the case may be conducted according to the judicial supervision procedures.

The PRC civil procedures are governed by the Civil Procedure Law of the People's Republic of China (中华人民共和国民事诉讼法) (the "Civil Procedure Law") adopted on 9th April, 1991. The Civil Procedure Law contains regulations on the institution of a civil action, the jurisdiction of the people's courts, the procedures in conducting a civil action, trial procedures and procedures for the enforcement of a civil judgment or order. All parties to a civil action conducted within the territory of the PRC must comply with the Civil Procedure Law. A civil case is generally heard by a court located in the defendant's place of domicile. The jurisdiction may also be selected by express agreement by the parties to a contract provided that the jurisdiction of the people's court selected has some actual connection with the dispute, that is to say, the plaintiff or the defendant is located or domiciled, or the contract was executed or implemented in the jurisdiction selected, or the subject-matter of the proceedings is located in the jurisdiction selected. A foreign national or foreign enterprise is accorded the same litigation rights and obligations as a citizen or legal person of the PRC. If any party to a civil action refuses to comply with a judgment or order made by a people's court or an award made by an arbitration body in the PRC, the aggrieved party may apply to the people's court to enforce the judgment, order or award. There are time limits on the right to apply for such enforcement. Where at least one of the parties to the dispute is an individual, the time limit is one year. If both parties to the dispute are legal persons or other entities, the time limit is six months.

A party seeking to enforce a judgment or order of a people's court against a party who or whose property is not within the PRC may apply to a foreign court with jurisdiction over the case for recognition and enforcement of such judgment or order. A foreign judgment or ruling may also be recognised and enforced according to PRC enforcement procedures by the people's courts in accordance with the principle of reciprocity or if there exists an international or bilateral treaty with or acceded to by the foreign country that provides for such recognition and enforcement, unless the people's court considers that the recognition or enforcement of the judgment or ruling will violate fundamental legal principles of the PRC or its sovereignty, security or social or public interest.

### **3. Arbitration and enforcement of arbitral awards**

The Arbitration Law of the PRC (中华人民共和国仲裁法) (the "Arbitration Law") was promulgated by the Standing Committee of the NPC on 31st August, 1994 and came into effect on 1st September, 1995. It is applicable to, among other matters, trade disputes involving foreign parties where the parties have entered into a written agreement to refer the matter to arbitration before an arbitration committee constituted in accordance with the Arbitration Law. Under the Arbitration Law, an arbitration committee may, before the promulgation by the PRC Arbitration Association of arbitration regulations, formulate interim arbitration rules in accordance with the Arbitration Law and the PRC Civil Procedure Law. Where the parties have by an agreement provided arbitration as a method for dispute resolution, the parties are not permitted to institute legal proceedings in a people's court.

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## APPENDIX 3 : SUMMARY OF RELEVANT PRC LAWS AND REGULATIONS

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Under the Arbitration Law, an arbitral award is final and binding on the parties and if a party fails to comply with an award, the other party to the award may apply to the people's court for enforcement. A people's court may refuse to enforce an arbitral award made by an arbitration committee if there were mistakes in the application of law, an absence of material evidence, irregularities over the arbitration proceedings, the jurisdiction or constitution of the arbitration committee, or the arbitrator's embezzlement, accepting bribes, malpractice for personal benefits of perverting the law in the arbitration..

A party seeking to enforce an arbitral award of a foreign affairs arbitration body of the PRC against a party who or whose property is not within the PRC may apply to a foreign court with jurisdiction over the case for enforcement. Similarly, an arbitral award made by a foreign arbitration body may be recognised and enforced by the PRC courts in accordance with the principles of reciprocity or any international treaty concluded or acceded to by the PRC.

In respect of contractual and non-contractual commercial-law-related disputes which are recognised as such for the purposes of PRC law, the PRC has acceded to the Convention on the Recognition and Enforcement of Foreign Arbitral Award ("New York Convention") adopted on 10th June, 1958 pursuant to a resolution of the Standing Committee of the NPC passed on 2nd December, 1986. The New York Convention provides that all arbitral awards made by a state which is a party to the New York Convention shall be recognised and enforced by other parties to the New York Convention subject to their right to refuse enforcement under certain circumstances including where the enforcement of the arbitral award is against the public policy of the state to which the application for enforcement is made. It was declared by the Standing Committee of the NPC at the time of the accession of the PRC that (1) the PRC would only recognise and enforce foreign arbitral awards on the principle of reciprocity and (2) the PRC would only apply the New York Convention in disputes considered under PRC laws to be arising from contractual and non-contractual mercantile legal relations.

#### 4. Foreign exchange control

Major reforms have been introduced on the foreign exchange control system of the PRC since 1993.

The People's Bank of China, with the authorisation of the State Council, issued on 28th December, 1993 the Notice on the Further Reform of the Foreign Exchange Control System (中国人民银行关于贯彻《国务院关于进一步改革外汇管理体制的通知》有关操作问题的通知) and on 26th March, 1994 the Provisional Regulations on the Settlement, Sale and Payment of Foreign Exchange (结汇、售汇及付汇管理暂行规定) which came into effect on 1st April, 1994 respectively. On 29th January, 1996, the State Council promulgated the PRC Foreign Exchange Administration Regulations (中华人民共和国外汇管理条例) which took effect on 1st April, 1996. On 20th June, 1996, the PBOC issued the Administration Regulations on the Settlement, Sale and Payment of Foreign Exchange (结汇、售汇及付汇管理规定), which took effect on 1st July, 1996. On 25th October, 1998, the People's Bank of China and the State Administration for Foreign Exchange issued a Joint Announcement on Abolishment of Foreign Exchange Swap Business which stated that from 1st December, 1998, all foreign exchange transactions for FIEs may only be conducted through authorised banks.

These regulations contain detailed provisions regulating the holding, sale and purchase of foreign exchange by individuals, enterprises, economic bodies and social organisations in the PRC.

Under the new regulations, the previous dual exchange rate system for Renminbi was abolished and a unified floating exchange rate system based largely on supply and demand was introduced. The People's Bank of China, having regard to the trading prices between Renminbi and major foreign currencies on the inter-bank foreign exchange market, publishes on each bank business day the Renminbi exchange rates against major foreign currencies.

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## APPENDIX 3 : SUMMARY OF RELEVANT PRC LAWS AND REGULATIONS

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In general, all organisations and individuals within the PRC, including foreign investment enterprises, are required to remit their foreign exchange earnings to the PRC. In relation to PRC enterprises, their recurrent foreign exchange earnings are generally required to be sold to designated banks unless specifically approved otherwise. Foreign investment enterprises (including sino-foreign equity joint ventures, sino-foreign co-operative joint ventures and wholly foreign owned enterprises), on the other hand, are permitted to retain certain percentage of their recurrent foreign exchange earnings and the sums retained may be deposited into foreign exchange bank accounts maintained with designated banks. Capital foreign exchange earnings must be deposited into foreign exchange bank accounts maintained with designated banks and can generally be retained in such accounts.

At present, control on the purchase of foreign exchange is being relaxed. Enterprises which require foreign exchange for their current activities such as trading activities and payment of staff remuneration may purchase foreign exchange from designated banks, subject to the production of relevant supporting documents without the need for any prior approvals of the State Administration of Foreign Exchange.

In addition, where an enterprise requires any foreign exchange for the payment of dividends that are payable in foreign currencies under applicable regulations, such as the distribution of profits by a foreign investment enterprise to its foreign investment party, then, subject to the due payment of tax on such dividends the amount required may be withdrawn from funds in foreign exchange accounts maintained with designated banks, and where the amount of the funds in foreign exchange is insufficient, the enterprise may purchase additional foreign exchange from designated banks upon the presentation of the resolutions of the board of directors on the profit distribution plan of that enterprise and other requisite documents.

Despite the relaxation of foreign exchange control over current account transaction, the approval of and/or registration with the foreign exchange administration authority is still required for a PRC enterprise to borrow a loan in foreign currency or provide any foreign exchange guarantee or make any investment outside of the PRC or to enter into any other capital account transaction involving the purchase of foreign exchange.

When conducting actual foreign exchange transactions, the designated banks may, based on the exchange rate published by the People's Bank of China and subject to certain limits, freely determine the applicable exchange rate.

The China Foreign Exchange Trading Centre ("CFETC") was formally established and came into operation on 1st January, 1994. CFETC has set up a computerised network with sub-centres in several major cities, thereby forming an interbank market in which designated PRC banks can trade in foreign exchange and settle their foreign currency obligations. Prior to 1st December, 1998, enterprises with foreign investment may at their own choice enter into exchange transactions through Swap Centre or through designated PRC banks. From 1st December, 1998 onwards, exchange transactions will have to be conducted through designated banks. Swap Centres became restricted to conducting foreign exchange transactions between authorised banks and inter-bank lending between PRC banks.

### 5. Taxation

The applicable income tax laws, regulations, notices and decisions (collectively referred to as "Applicable Foreign Enterprises Tax Law") related to foreign investment enterprises and their investors include the follows:

- (1) Income Tax Law of the PRC on Foreign Investment Enterprises and Foreign Enterprises (中华人民共和国外商投资企业和外国企业所得税法) adopted by the NPC on 9th April, 1991
- (2) Implementing Rules of the Income Tax Law of the PRC on Foreign Investment Enterprises and Foreign Enterprises (中华人民共和国外商投资企业和外国企业所得税法实施细则) promulgated by the State Council, which came into effect on 1st July, 1991

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## APPENDIX 3 : SUMMARY OF RELEVANT PRC LAWS AND REGULATIONS

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- (3) Notice Relating to taxes Applicable to Foreign Investment Enterprises / Foreign Enterprises and Foreign Nationals in Relation to Dividends and Gains obtained from Holding and Transferring of Shares (国家税务总局关于外商投资企业、外国企业和外籍个人取得股票(股权)转让收益和股息所得税收问题的通知) promulgated by State Tax Bureau on 21 July 1993
- (4) Amendments to the Income Tax Law Applicable to Individuals of the PRC (修改中华人民共和国个人所得税法的决定) promulgated by Standing Committee of NPC on 30 August 1999
- (5) Notice on Relevant Policies Concerning Individual Income Tax (关于个人所得税若干政策问题的通知) issued by Ministry of Finance and the State Tax Bureau on 13 May 1994

(a) *Income tax on foreign investment enterprises*

According to the Applicable Foreign Enterprises Tax Law, foreign investment enterprises (including sino-foreign equity joint ventures, sino-foreign co-operative joint ventures and wholly foreign owned enterprises established in the territory of the PRC) is required to pay a national income tax at a rate of 30% of their taxable income and a local income tax at a rate of three per cent. of their taxable income.

A foreign investment enterprise engaged in production having a period of operation of not less than ten years shall be exempted from income tax for the first two profit-making years and a 50% reduction in the income tax payable for the next three years. The income tax concession for foreign investment enterprises engaged in the exploitation of resources such as petroleum, natural gas, rare metals and precious metals are regulated separately by the State Council.

Foreign investment enterprises established in special economic zones, foreign enterprises having an establishment in special economic zones engaged in production or business operations and foreign investment enterprises engaged in production in economic and technological zones may pay income tax at a reduced rate of 15%. Foreign investment enterprises engaged in production established in coastal economic open zones or in the old urban districts of cities where the special economic zones or the economic and technological development zones are located may pay income taxes at a reduced rate of 24%. A reduced income tax rate of 15% may apply to an enterprise located in such regions which is engaged in energy, communication, harbour, wharf or other projects encouraged by the State.

Losses incurred in a tax year may be carried forward for not more than five years.

The people's governments of provinces, autonomous regions and municipalities directly under the central government may grant exemptions from or reduced local income tax for a foreign investment enterprise engaged in an industry or a project encouraged by the State.

(b) *Value added tax*

The Provisional Regulations of the People's Republic of China Concerning Value Added Tax (中华人民共和国增值税暂行条例) promulgated by the State Council came into effect on 1st January, 1994. Under these regulations and the Implementing Rules of the Provisional Regulations of the People's Republic of China Concerning Value Added Tax (中华人民共和国增值税暂行条例实施细则), value added tax is imposed on goods sold in or imported into the PRC and on processing, repair and replacement services provided within the PRC.

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## APPENDIX 3 : SUMMARY OF RELEVANT PRC LAWS AND REGULATIONS

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Value added tax payable in the PRC is charged on an aggregated basis at a rate of 13% or 17% (depending on the type of goods involved) on the full price collected for the goods sold or, in the case of taxable services provided, at a rate of 17% on the charges for the taxable services provided but excluding, in respect of both goods and services, any amount paid in respect of value added tax included in the price or charges, and less any deductible value added tax already paid by the taxpayer on purchases of goods and services in the same financial year.

(c) *Business tax*

With effect from 1st January, 1994, business that provide services (except entertainment business), assign intangible assets or sell immovable property became liable to business tax at a rate ranging from 3% to 5% of the charges of the services provided, intangible assets assigned or immovable property sold, as the case may be.

(d) *Tax on dividends from PRC enterprise with foreign investment*

According to the Applicable Foreign Enterprises Tax Law, income such as dividends and profits distribution from the PRC derived from a foreign enterprise which has no establishment in the PRC is subject to a 20% withholding tax, subject to reduction as provided by any applicable double taxation treaty, unless the relevant income is specifically exempted from tax under the Applicable Foreign Enterprises Tax Law. The profit derived by a foreign investor from a PRC enterprise with foreign investment is exempted from PRC tax according to the Applicable Foreign Enterprises Tax Law.

### 6. Wholly foreign-owned enterprise

Wholly foreign-owned enterprises are governed by the Law of the people's Republic of China Concerning Enterprises with Sole Foreign Investments (中华人民共和国外资企业法), which was promulgated on 12 April 1986 and was subsequently amended on 31 October 2000, and its Implementation Regulations promulgated on 12 December 1990 and was subsequently amended on 12 April 2001 (together the "Foreign Enterprises Law").

(a) *Procedures for establishment of a wholly foreign-owned enterprise*

The establishment of a wholly foreign-owned enterprise will have to be approved by Ministry of Commerce (or its delegated authorities) (hereinafter referred to as "MOC"). If two or more foreign investors jointly apply for the establishment of a wholly foreign-owned enterprise, a copy of the contract between the parties must also be submitted to MOC (or its delegated authorities) for its record. A wholly foreign-owned enterprise must also obtain a business licence from SAIC before it can commence business.

(b) *Nature*

A wholly foreign-owned enterprise is a limited liability company under the Foreign Enterprise Law. It is a legal person which may independently assume civil obligations, enjoy civil rights and has the right to own, use and dispose of property. It is required to have a registered capital contributed by the foreign investor(s). The liability of the foreign investor(s) is limited to the amount of registered capital contributed. A foreign investor may make its contributions by instalments and the registered capital must be contributed within the period as approved by MOC (or its delegated authorities) in accordance with relevant regulations.

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## APPENDIX 3 : SUMMARY OF RELEVANT PRC LAWS AND REGULATIONS

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(c) *Profit distribution*

The Foreign Enterprise Law provides that after payment of taxes, a wholly foreign-owned enterprise must make contributions to a reserve fund and an employee bonus and welfare fund. The allocation ratio for the employee bonus and welfare fund may be determined by the enterprise. However, at least 10 per cent of the after tax profits must be allocated to the reserve fund. If the cumulative total of allocated reserve funds reaches 50% of an enterprise's registered capital, the enterprise will not be required to make any additional contribution. The enterprise is prohibited from distributing dividends unless the losses (if any) of previous years have been made up.

### 7. Environmental Protection Regulations

In accordance with the Environmental Protection Law of the PRC adopted by the Standing Committee of the NPC on 26th December, 1989, the Administration Supervisory Department of Environmental Protection of the State Council sets the national guidelines for the discharge of pollutants. The provincial and municipal governments of provinces, autonomous regions and municipalities may also set their own guidelines for the discharge of pollutants within their own provinces or districts in the event that the national guidelines are inadequate.

A company or enterprise which causes environmental pollution and discharges other polluting materials which endanger the public should implement environmental protection methods and procedures into their business operations. This may be achieved by setting up a system of accountability within the company's business structure for environmental protection; adopting effective procedures to prevent environmental hazards such as waste gases, water and residues, dust powder, radioactive materials and noise arising from production, construction and other activities from polluting and endangering the environment. The environmental protection system and procedures should be implemented simultaneously with the commencement of and during the operation of construction, production and other activities undertaken by the company. Any company or enterprise which discharges environmental pollutants should report and register such discharge with the Administration Supervisory Department of Environmental Protection and pay any fines imposed for the discharge. A fee may also be imposed on the company for the cost of any work required to restore the environment to its original state. Companies which have caused severe pollution to the environment are required to restore the environment or remedy the effects of the pollution within a prescribed time limit.

If a company fails to report and/or register the environmental pollution caused by it, it will receive a warning or be penalised. Companies which fail to restore the environment or remedy the effects of the pollution within the prescribed time will be penalised or have their business licences terminated. Companies or enterprises which have polluted and endangered the environment must bear the responsibility for remedying the danger and effects of the pollution, as well as to compensate the any losses or damages suffered as a result of such environmental pollution.

### 8. Laws of PRC on the Production of Civil Explosive Equipment

The PRC Safe Production Law (中华人民共和国安全生产法), effective as of 1 November 2002) sets out the main safety production requirements that manufacturing enterprises, *inter alia*, civil explosive equipment production enterprises should comply with. Some of these requirements are: setting up a production safety management department or appointing a full-time production safety management team (Article 19); the main persons in charge and the production safety management staffs possess safe production knowledge and management ability (Article 20); education and training of the employees on safe production (Article 21); the safety demonstration, appraisal, design approval, and completion inspection requirements on the projects of production or storage of dangerous articles (Article 25, 26, 27); the safety equipments shall be designed, constructed and operated simultaneously (Article 24).

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## APPENDIX 3 : SUMMARY OF RELEVANT PRC LAWS AND REGULATIONS

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The Safe Production Law also provides for the examination, approval and supervision requirements on the production and operation of dangerous articles. The Ordinances on Safe Production Permit (安全生产许可证条例), issued by the State Council, effective as of 13 January 2004) specially stipulates that before their operation, civil explosive equipment production enterprise must obtain Safe Production Permit, which shall be issued by the State Commission of Science and Technology for National Defense (“SCSTND”) and its subordinates. Under the implementation measures of the above Ordinances promulgated by SCSTND, the Permit shall be issued with a term of three years, and can be renewed if the enterprise complies with relevant safety production rules and no death accident occurred in the previous term. The implementation rules list out the concrete conditions for obtaining the Safe Production Permit, including the formulation of safety rules and safety responsibility system, the qualification of safe production staff and operation workers, purchasing requisite employment injury insurance, passing the safety appraisal, possessing the accident rescue plan, organization and equipment, the compliance with the relevant requirements on factory, warehouse, equipment and process, etc.

Under another rule of SCSTND, Interim Rules on the Production and Circulation of Civil Explosive Equipment (民用爆破器材生产流通管理暂行条例), effective as of 26 November 1999), the Civil Explosive Equipment Production Enterprise License (民用爆破器材生产企业凭照) is a pre-requisite for engaging in the manufacture of civil explosive devices. This rule further sets out the requirements on the storage, transportation, sale and import-export of civil explosive devices. The purchasers of civil explosive devices are limited to duly licensed sales enterprises or those customers with duly issued purchase permit. Meanwhile, the sale and purchase contracts shall be approved by SCSTND or its competent subordinates.

### 9. Laws of PRC on Intellectual Property

#### *Trademark Law*

Under the PRC Trademark Law and its Implementation Rules, the registrant of a trademark may mark its products and its packaging with the words “registered mark” or a mark of registration. The registrant of the trademark shall enjoy the exclusive right to use its registered trademark. The following acts shall be deemed as infringement of the holder’s trademark rights:

- (1) using a trademark which is identical with or similar to the registered trademark on the same kind of commodities or similar commodities without a license from the holder of that trademark;
- (2) selling commodities that infringe upon the right to the exclusive use of a registered trademark;
- (3) forging, manufacturing without authorization the marks of a registered trademark of others, or selling the marks of a registered trademark forged or manufactured without authorization;
- (4) changing a registered trademark and selling the commodities with the changed mark in the market without the consent of the registrant of that trademark; and
- (5) causing other damages to the right to the exclusive use of a registered trademark of another person.

A trademark registration in the PRC is valid for 10 years and is renewable.

#### *Patent Law*

In accordance with the PRC Patent Law and its Implementation, the patent right may be granted for inventions, utility models and designs. The duration of patent right for inventions is 20 years, and the duration of the patent right for utility models and patent right for designs are 10 years, counted from the date of filing (Article 42 of the Patent Law).

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## APPENDIX 3 : SUMMARY OF RELEVANT PRC LAWS AND REGULATIONS

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If any acts of infringement arise from the exploitation of a patent without the authorization of the patentee, the patentee or interested parties may request the administrative authorities for patent affairs to handle the matter or may directly file a suit in the court (Article 57 of the Patent Law). Where any person wrongfully uses patent of another person as his own or counterfeit a non-patented product as patented product, he shall be prohibited by the administrative authority for patent affairs of such activities and be imposed with a fine (Article 58 and 59 of the Patent Law). The period of limitation for filing a suit concerning the infringement of a patent right is 2 years.

None of the following shall be deemed an infringement of a patent right (Article 63 of the Patent Law):

- (1) use, sale or promise to sale of a patented product after it has been made or imported by the patentee or with the authorization of the patentee, or it has directly obtained by using the patented process, and subsequently sold;
- (2) continued making or use of a similar product, only within its original scope, by party that prior to the date of application for the patent in question, had already made that similar product, used the same process or made the necessary preparation for such making or use;
- (3) use of the patent in question by a foreign means of transport which temporarily passes through the territorial land, water or airspace of China for its own needs, in its devices and installations, in accordance with any agreement concluded between China and the country to which the foreign means of transport belongs, or any international treaty to which both countries are party, or on the basis of the principle of reciprocity; or
- (4) use of the patent in question solely for the purposes of scientific research and experimentation.

Any person who, for production and business purposes, uses or sells a patented product or a product that was directly obtained by using a patented process, without knowing that it was made and sold without the authorization of the patentee, shall not be liable to compensate for the damage of the patentee if he can prove that he obtains the product from a legitimate source.



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## APPENDIX 4 : SUMMARY OF THE GROUP'S SAFETY MANUAL

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## APPENDIX 4 : SUMMARY OF THE GROUP'S SAFETY MANUAL

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### 1. *Basic Rules for Safety Production*

#### (1) Commencement of production

The new production line shall only be put into use upon its design and installation being examined and accepted by relevant departments. In the course of the said examination for acceptance or commencement of production, relevant national specifications and standards such as GB50089-98 shall apply. The head of each department and technicians should be familiar with the products' nature, equipments' functions, and be equipped with knowledge of fire protection and safety production. All operators must undergo education and training on safety and techniques to obtain eligibility certificates.

#### (2) Production

Before production, the operators and relevant responsible persons shall conduct an overall examination to ensure that all requisite requirements are satisfied, in particular, importance should be placed on the safety and production capacity. Further, any modification to the technical production process and safety administration rules shall be approved by the chief engineer or head of responsible department. Unauthorised personnel are not allowed to enter restricted areas in the production factory, unless authorised in accordance with the rules and procedures. All raw materials for producing hazardous goods must obtain quality certificates.

#### (3) Cease of production

Prior to a long-term cease of production, all the finished products, semi-finished products and raw materials in the production factory shall have to be stored in warehouse according to the relevant rules. All internal and external equipments, tanks, channels, air tunnels and pipelines of the production factory shall be thoroughly cleaned up, and examined by the deputy factory manager and personnel responsible for technologies and safety and other relevant departments.

Prior to the long-term cease of production, the equipments and the production factory shall be cleaned up and the machineries be placed accordingly to the relevant rules.

### 2. *Rules for Safety Meetings*

The factory manager or deputy factory manager shall chair safety meetings to be attended by the management on a monthly basis. Such meetings shall have the following objectives:

- (1) To study the orders, regulations with respect to safety production and to discuss the implementing measures;
- (2) To have the safety examination department report on and analyse any safety issues;
- (3) To analyse accidents (if any) and formulate safety measures;
- (4) To discuss such other matters in relation to rewards and penalties to ensure safety production.

All the meeting minutes shall be recorded and be kept for at least 2 years.

Every team and department shall conduct meetings on a daily basis before and after each production to discuss all issues arisen during the safety examinations.

The safety production department shall also convene safety meetings to be attended by the relevant departments of the company on a regular basis.

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## APPENDIX 4 : SUMMARY OF THE GROUP'S SAFETY MANUAL

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### 3. *Rules for Safety Production Examination*

In terms of frequency, the safety production examination may be categorized into the following classes: -

- (1) before and after production on a daily basis;
- (2) at the end of every month;
- (3) on *ad hoc* basis;
- (4) before important national holidays; and
- (5) 2 to 4 times per quarter.

Apart from the above, examinations may be conducted when necessary due to change of weather. The safety production department shall ensure all licenses held by the special operators are valid and shall examine all special equipments and sites.

### 4. *Rules for Rewards and Penalties with respect to Safety Production*

Any department or individual that have contributed to the safety production shall be rewarded accordingly. Any person who violates the safety rules causing accident shall be penalised.

The general manager shall convene a workers' meeting to discuss and decide on any dismissal issue. Any decision to dismiss a worker shall be reported and filed with the local responsible authority and labour or personnel administrative department.

The head of department shall be responsible to ensure that all rewards and penalties shall be attended on a prudent and timely basis.

### 5. *Administrative Rules for Prevention of Occupational Poisoning and Diseases*

- (1) The dust-proof and chemical protective facility shall be designed, built, and used concurrently with the main production line.
- (2) All workers at the poisoned and chemical sites shall undergo professional hygiene training and physical examination at least once a year, and shall abide with all relevant occupational disease prevention laws and regulations.
- (3) The safety production department shall instruct and supervise all workers at the poisoned and chemical sites to utilize occupational disease prevention facility. It shall conduct regular checks and shall account to procure the examination by the occupational hygiene supervision and inspection authority. It shall maintain a health record detailing the workers' occupation history, physical examination results, personal health information and etc.

### 6. *Rules for Inspection and Repair of the Production Facilities Producing Hazardous Articles*

- (1) The production facilities shall be inspected and well maintained.
- (2) All machineries and materials shall be inspected to comply with the requisite standards in accordance with the relevant regulations. Furthermore, the maintenance staff must be familiar with the production facility and hazardous articles.
- (3) Upon completion of any inspection and / or repair, the maintenance staff shall clean up all metal impurity and make necessary replacement on all safety equipments.

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## APPENDIX 4 : SUMMARY OF THE GROUP'S SAFETY MANUAL

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- (4) The production facilities, the safety production department, the maintenance staffs, and operators shall all participate in a test drive before the production facility can be formally put into production.
- (5) The production supervisor shall be responsible for organizing and keeping a complete and accurate record to be signed by maintenance staffs for every 2 years.

### 7. *Welding and Ignition*

All workers in charge of welding shall be familiar with the products' nature and hold qualified licence and operation permit. The welding worker shall apply to the safety production department for approval prior to any welding and ignition conducted in the production facilities. The approval once issued shall not be amended without prior consent. The safety production officer shall supervise the welding throughout the welding period. The welding shall not be proceeded in the event that, *inter alia*, the welding workers do not hold valid licence or permit, and certain articles cannot be welded etc.

### 8. *Administrative Rules for Protection Articles*

The procurement department is responsible for the purchase of protection articles that comply with national standards or other criteria from state-designated shops or agents. Such protection articles must have valid Product Quality Certificate. Where there is a necessity for certain special protection articles that is not regulated, the safety production department shall propose to the Company's management for approval before the purchase.

The protection articles shall be distributed to workers according to certain rules. The safety production department shall ensure that all the articles are being used correctly. No worker shall commence work without applying protection attires and articles.

### 9. *Administrative Rules for Lightning Conductor*

Lightning conductor shall be installed on all production facilities producing hazardous products and warehouses in according to the relevant regulations and orders. The safety production department shall arrange for the testing and maintainance of the lightning conductor before every raining season. During the summers when thunders and rains are more frequent, the safety production department shall, when require, cease production to implement protective measures and vacate buildings.

### 10. *Administrative Rules for Anti-static Facilities*

Certain measures must be applied to the metal equipments and pipelines in and out of the production facilities producing hazardous products. There should be destaticizers and warning signboards at the entrance to the production facilities.

All workers in the production facilities shall wear working attire and hard hats made of cotton for the purposes of anti-static. The workers are prohibited from changing their attire in the production facilities.

The safety production department shall arrange for the testing and examination of the anti-static facilities in the production facilities every year. The production facility department shall be responsible for resolving all issues arisen during the examinations on a timely basis. Issues that are unable to be resolved shall be reported immediately to the management.

### 11. *Administrative Safety Rules for Electricity Facilities*

The workers in charge of installation, operation, maintenance, examination and repair must have been trained and hold qualified licences. The back-up power supply and alarm systems should be activated in case of emergency. The production facility department shall be responsible for the testing and examination of such facilities every half a year.

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## APPENDIX 4 : SUMMARY OF THE GROUP'S SAFETY MANUAL

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The electricity operators shall immediately switch off electricity supplies and report to the management forthwith in the following circumstances: -

- (1) There is abnormal noise or smell emitted from the electricity facilities;
- (2) There is reverse electricity current;
- (3) There is a sudden increase in temperature of electricity facilities and circuitry, or there is smoke emitted;
- (4) The connection parts of electricity facilities are loose or produce sparkle; and
- (5) The electricity facilities wrapper or protector are damaged.

All the electricity facilities in the production facilities producing flammable or explosive products shall not be uninstalled or installed without prior approval.

The production facility department shall ensure the electricity facilities and circuitry function properly and shall conduct examinations on the same every half a year. The production safety department shall arrange for the testing and examination on the ground resistance figure.

### 12. *Administrative Rules for Explosive Articles*

- (1) Administration in the course of production

The use and store of all semi-finished products, finished products and wastes of dynamite and detonator shall be controlled strictly. The transit of all explosive articles shall be recorded: -

- (a) by The responsible staff of the safety production department and the head of transportation team must be approve the collection of explosive articles from the main warehouse. Storekeepers shall check the articles against the collection orders before storing the same in temporary warehouse.
- (b) Sensitive articles shall be separately kept. Storekeepers shall check the quantity and quality of these articles before storing the same.
- (c) Storekeepers shall distribute the explosive and sensitive articles stored in temporary warehouse according to the production plan. The unused articles must be returned and recorded.
- (d) The products shall be packed in the production facilities according to requirement. An index card shall be attached indicating the specification, quantity, code number of worker and shift number. Storekeepers are responsible for recording and sealing the cartons before handing them over for transportation.
- (e) Technicians and safety worker must be present when the products that does not meet the required quality standard are destroyed.

- (2) Test Procedures and Administrative Rules

- (a) Testing officer shall collect samples from the production facilities according to a Testing Notice.
- (b) At least two testing officer must be present when conducting the testing.

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## APPENDIX 4 : SUMMARY OF THE GROUP'S SAFETY MANUAL

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(c) Articles such as fuse and detonator shall not be collected without approval from officer in charge.

(d) The unused and disqualified products shall be returned to the warehouse.

(3) Temporary warehousing of detonator for testing purposes

The quantity of detonator shall be examined before storage. There must be at least two staff in charge of detonator storage. The safety production department shall examine the detonator storage procedures from time to time.

(4) Guardhouse

No personal bags or suitcases are allowed into the production facilities. Security guards shall have the rights to examine all vehicles entering or exiting from the production facilities and ensure they bear exit passes issued by the management.

(5) Warehouse

(a) The warehouse must be built in accordance with relevant regulations.

(b) There shall be no admission to the production facilities without prior permission. No ignitable items such as lighter are allowed in the production facilities.

(c) Explosive articles must be sold to those with approved contracts and permit issued by the public security bureau.

13. *Rules for the Store Quantity and Storekeepers*

The storage quantity for temporary and auxiliary warehouses shall be kept low in order to reduce the number of storekeepers. The size of the warehouses have been graded according to the maximum storage quantity and corresponding number of storekeepers are allocated thereto.

14. *Administrative Rules for the Transportation and Handlings inside Production Facilities*

The transportation of hazardous products must comply with the relevant laws and regulations.

(1) The vehicles must satisfy various requirements and be used according to the rules and regulations.

(2) The drivers must have the knowledge of the nature of the products and manner in handling the products in the event of a breakdown or fire. Apart from general rules applicable to the drivers, they will also have to observe other special rules relating to the transporting in the production facilities.

15. *Safety Rules for Welding Worksite*

The equipment, machineries and materials must be placed in order. During the welding process, no ignitable and explosive articles are allowed within a range of 10 meters. Before working in tunnels, wells, pipelines and semi-enclosed area, the staff shall examine in respect to any risks of explosion and toxication.

16. *Safety Rules for Welding*

The welding workers must be qualified. Any welding work in the production area must obtain prior approval and be closely supervised. All welding workers shall examine and ensure the safety half an hour in advance prior to any work in air-compressed containers, enclosed containers, oil tanks, pipelines etc.

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## APPENDIX 4 : SUMMARY OF THE GROUP'S SAFETY MANUAL

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### 17. *Rules for Industrial Accidents*

Any staff that discovers any industrial accidents must report to its head of department and thereafter to the safety production department etc. The company shall ensure that the safety production department and the relevant entity be involved in the investigation of the accidents. The person causing such accidents must be punished accordingly. Any concealment of accidents or any destroy of evidence at the accident sites are prohibited.

All industrial accidents must be dealt with within 10 days and the result shall be publicly announced.

### 18. *Administrative Rules for Virulent Articles*

The company staff must observe the relevant rules and regulations with respect to virulent articles. All workers are prohibited from taking, discarding and disposing virulent articles without prior approval. The purchase and distribution of virulent articles must be approved by the management. Virulent articles shall not be transported together with other chemicals.

### 19. *Rules for Safety Education*

All new and temporary workers will have to undergo safety education of 3 levels before they commence work:-

- (1) The human resource department, safety production department and production teams of each workshop are responsible for the training of workers at a company level. The training covers safety production of explosive articles, safety administrative rules, working disciplines, laws and regulations and fire protection etc. The training shall not be less than 48 hours.
- (2) The production teams and technique examination offices of each workshop are responsible for the training of workers at a workshop level. The training covers the rules for techniques and safety, production process, main production facilities and administrative rules in particular to that workshop. The training shall not be less than 24 hours.
- (3) The team leaders are responsible for the training of a team level. The training covers the remedial measure in the event of emergency and safety operation method etc. A senior trainer shall be appointed for each new worker. This training will last for at least one month.

The workers will then be tested and licensed. Other trainings and educations will be conducted from time to time where necessary.

Those who have failed their test shall be suspended from work until he passes.

### 20. *Administrative Rules for New Product Testing*

All new product testings must firstly be proposed to and approved by the company. Testings shall only be conducted in special places but not production areas. The staff must fully understand the nature of new materials and the objectives of the testing prior to the carrying out of such testings. The staff conducting the testing must be equipped with the knowledge of using safety facilities and other equipment.

Any disqualified products from the testings must be destroyed in accordance with relevant rules.

### 21. *Administrative Rules for Infrastructure Construction*

The infrastructure construction shall follow national rules and regulations. No construction shall be commenced without meeting necessary safety requirement. Unauthorised personnel are not allowed in the construction area. All the material accidents shall be reported to the management and safety department.

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## APPENDIX 4 : SUMMARY OF THE GROUP'S SAFETY MANUAL

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### 22. *Duty System*

The workers on duty shall observe all relevant rules, in particular, they shall not leave their work station without permission and shall report to work on time etc. They shall prepare duty report which is to be kept by the production and technique department.

### 23. *Rules for the Examination on Important Sites*

The head of the company, departments, branches, workshops and teams shall take turn to examine some important sites. The scope of examination includes hygiene, supply facilities for power, gas and water, and equipment etc. The general manager and chief engineer shall examine the above sites from time to time (at least once per half a year). The deputy managers shall examine on a monthly basis.

### 24. *Administration on Production Plan*

The Marketing Department shall prepare sales plan according to purchase orders and customers demand. Upon the approval of the operation manager, the chairman of the board or the general manager, such plans shall be issued to the safety production offices of branches. They should then prepare their respective detailed plans for implementing the sales plan accordingly. Unless it is due to customers' special request, the plans shall not be amended or supplemented. The workshops shall be responsible for supervising the implementation of the plans.

### 25. *Administration on Semi-finished Products*

The team leaders and storekeepers shall be jointly responsible for supervising the usage, processing and packaging of semi-finished products. Disqualified semi-finished products shall be kept in special cartons and shall not be released for the next stage in the production line.

### 26. *Rules for Technique Management*

- (1) Technique Procedures shall be followed by a technician and the Quality Inspection Department of a branch factory, and shall be approved by the director and assistant director who is in charge of technique and quality inspection.
- (2) Technique and Quality Inspection Department together with the Safe Protection Department shall carry out the Technique Procedures for every workshop, team and worker. Furthermore, they are also responsible for the workers' and production managers' familiarities with the Technique Procedures.
- (3) In the event there is an error exists in the Technique Procedures, the Technique and Quality Inspection Department shall revise the same.
- (4) The Technique and Quality Inspection Department could make an adjustment of the Technique Procedures pursuant to the customers' requirements. However, the following conditions must be met in order to complete a Technique Procedures adjustment:
  - (a) There are indeed unreasonable rules in the existing Technique Procedure.
  - (b) The production line can satisfy the customer's special request.
  - (c) There is a need to substitute a raw material in the original Technique Procedure with another raw material.
  - (d) The adjustment of the Procedure shall not decrease the safety ratio.



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## APPENDIX 4 : SUMMARY OF THE GROUP'S SAFETY MANUAL

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### 27. *Rules for Work Discipline*

- (1) All workers shall report to work according to the factory's unified schedule.
- (2) All workers shall complete the current task with high quality and high efficiency.
- (3) All workers shall not delegate their work to others without the consent of a team leader.
- (4) No minors or unauthorised personnel are allowed in work area.

### 28. *Rules Regarding Leave*

- (1) Anyone who applies for leave must complete a form to be approved by a team leader, a workshop director, or a branch director.
- (2) In case of a sick leave, one shall have a medical record from a hospital above county level.
- (3) All other leaves shall be implemented according to company's regulation.
- (4) Each management level shall retain its own policy in respect of the days of leaves for workers. In case of emergency, a branch director has the right to adjust such policy.

### 29. *Rules for Work Shift*

The workers of second shift should report on duty 15 minutes in advance so as to check the tools, hygiene, raw materials etc. together with the workers on duty. The workers on duty shall explain to the successors clearly the production status etc. The successors shall have right to refuse to take over and report to leaders if they discover any issues.

### 30. *Rules for Production Statistics*

- (1) The material of Production Statistics must be reliable, accurate and timely.
- (2) The statistician shall report to the head of Safety Production Department on a daily basis with the output, quantity of finished products and rejected products.
- (3) There shall be a stock-taking at the close of every product subdivision.
- (4) The statistics shall only be changed in case of an error occurs. Moreover, all statistics material shall be kept confidential.

### 31. *Rules of Worksite Management*

- (1) All equipments, including but not limited to machines, raw materials, and finished products, shall be placed properly in their requisite positions.
- (2) The worksite shall be kept clean.
- (3) All the production wastes shall be classified and cleaned periodically.

### 32. *Rules for Label*

- (1) Raw material labels shall be divided as qualified or disqualified, which also includes material name, manufacturer, model number and quantity.
- (2) Semi-finished product label shall include the manufactured time, quantity, model number etc..

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## APPENDIX 4 : SUMMARY OF THE GROUP'S SAFETY MANUAL

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- (3) Finished product label shall be placed on the finished products after inspections by Technique and Quality Inspection Department.
- (4) Production facility label and inspection facility label shall include name, expiration date and qualified certification.
- (5) Hazardous label shall be placed around the worksite and storage site.

### 33. *Rules for Structure Management*

- (1) There shall not be any changes to the purpose of structures, or any misplacement of materials.
- (2) There are also rules prohibiting impairment of the structure, installation of pipelines in order to protect the safety of structure.

### 34. *Rules for Factory Hygiene Management*

These rules are for to keep a clean environment for the purpose of creating a better worksite, which mainly include the duty, cleaning procedure, and supervision requirements.

### 35. *Rules for Safety Technique*

- (1) This Rule regulates the management of safety plan making, costs and other related matters.
- (2) The Safety Protection Department shall be responsible for the review, manage and supervision and the application of Safety Rules.
- (3) The Safety Rules shall include safety technique, occupational hygiene, safety education and house structures.
- (4) The safety plan shall be reviewed and approved by the company, which shall also include project design and budget.
- (5) The Safety Plan budget shall be fixed according to the relevant government regulations.
- (6) The Safety Project shall be approved by Safety Production Department together with the other relevant units and end user.
- (7) During any construction projects the Safety Technique shall be designed and constructed at the same time.
- (8) The safety director shall be responsible for examining and inspecting the Safety Production. For those Safety Projects which are effective and efficient, the company shall award the relevant staff. On the contrary, the company shall penalised those who violates such Safety Rules.

### 36. *Rules for Managing Hazardous Waste Equipment*

- (1) All management levels must highly regard the safety management of hazardous waste equipment, pipeline and machine parts.
- (2) The hazardous metal waste shall be cleaned at the workshop, and shall be stored in the warehouse after strict inspection.
- (3) All the hazardous materials shall be managed and destroyed by an independent cleaning group.

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## APPENDIX 4 : SUMMARY OF THE GROUP'S SAFETY MANUAL

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### 37. *Rules for Transportation Outside the Factory*

These are the rules mainly regulating the transportation of hazardous goods, which must comply with the relevant laws and regulations.

### 38. *Rules for Destroying Hazardous Goods*

- (1) The hazardous goods, which generate from the production, mainly includes: explosive, detonator, organic solvent and packing material with explosive.
- (2) This rule relates to the destroying methods, transportation, and detailed operating methods of the above mentioned four hazardous goods.

### 39. *Rules for Warehouse Management*

- (1) An inventory record shall be kept in respect of all raw materials and finished products that are being stored and removed from the warehouse.
- (2) The warehouse shall be cleaned once a month, and the inventory shall be checked every two years.
- (3) The Storage Department is responsible for hazardous goods storage warehouse, which shall be labelled with the title of goods and maximum quantity.

### 40. *Rules for External Persons and Vehicles*

- (1) All external persons and vehicles must register with the company guards before they can enter into the worksite. The vehicles, particularly, have to install a fireproof device before they can enter into worksite or storage area.
- (2) The vehicles loaded with hazardous goods or other articles, shall be allowed to exit with an exit pass issued by Safety Production Department.

### 41. *Rules for Fire Protection Department and Fire Protection Facility*

- (1) A Fire Protection Committee shall be formed consisting of the company's major directors and other officers from the relevant authorities. A volunteer fire protection organization shall also be established in every workshop.
- (2) A fire extinguisher shall be placed at an apparent, safe and convenient place.

### 42. *Administrative Rules for Fire Protection Facility*

These rules emphasize on the fire protection facility to protect state-owned and personal property. All workers are obliged to maintain the fire protection facility.

### 43. *Other Fire Protection Rules*

- (1) No smoking at hazardous goods production area.
- (2) No piling up of goods under high voltage electricity line.
- (3) There are also other rules concerning the usage and management of flammable, explosive goods and worksite.

### 44. *Six Forbidden Rules of Fire Violation*

- (1) No usage of fire without a certificate of approval.
- (2) No fire can be used near the production system.

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## APPENDIX 4 : SUMMARY OF THE GROUP'S SAFETY MANUAL

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- (3) No fire is allowed unless the equipment has been cleaned.
- (4) No fire is allowed prior to any flammable, or explosive products being removed.
- (5) No fire is allowed without any safety analysis.
- (6) No fire is allowed without a fire protection plan.

45. *Fourteen Forbidden Rules at Production Worksite*

These are general rules, such as no smoking, no drinking, no minors at the worksite, etc.

46. *Six Rules for Operators*

The operators must comply with the shift policy , conduct inspection, control operating standards, and comply with disciplinary and safety regulations.

47. *Eight Rules for Entering the Container and Equipment*

These rules set out eight necessary steps for anyone who intends to enter the container and equipment, such as a written consent, safety isolation, wearing protective attires, and possible rescue measures.

48. *Seven Forbidden Rules of Vehicles*

These rules forbid certain ways of using a vehicle, such as drunk driving, driving without a written consent, entering a hazardous zone without installing a fireproof, etc.

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**APPENDIX 5: REPORT OF THE AUDITORS AND AUDITED FINANCIAL  
STATEMENTS OF FABCHEM CHINA PTE. LTD. AND SUBSIDIARY FOR  
THE YEAR ENDED 31 MARCH 2005**

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FABCHEM CHINA PTE. LTD. (Registration No: 200413128G)

**REPORT OF THE DIRECTORS AND FINANCIAL STATEMENTS**

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## APPENDIX 5: REPORT OF THE AUDITORS AND AUDITED FINANCIAL STATEMENTS OF FABCHEM CHINA PTE. LTD. AND SUBSIDIARY FOR THE YEAR ENDED 31 MARCH 2005

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FABCHEM CHINA PTE. LTD. (Registration No: 200413128G)

### REPORT OF THE DIRECTORS

The directors of the Company are pleased to present their report together with the audited financial statements of the Company and of the Group for the financial year ended 31 March 2005. The financial year covers the period since incorporation on 12 October 2004 to 31 March 2005.

#### 1. DIRECTORS AT DATE OF REPORT

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

Lim Seck Yeow	(appointed on 12 October 2004)
Sun Bowen	(appointed on 16 June 2005)
Bao Hongwei	(appointed on 16 June 2005)

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

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

#### 3. DIRECTORS' INTERESTS IN SHARES AND DEBENTURES

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

<u>Name of directors</u>	<u>Direct interest</u>		<u>Deemed interest</u>	
	<u>At beginning of year or date of appointment</u>	<u>At end of year</u>	<u>At beginning of year or date of appointment</u>	<u>At end of year</u>
	<u>Ordinary shares of S\$1 each</u>		<u>Ordinary shares of S\$1 each</u>	
Lim Seck Yeow	1	-	-	520,000

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**APPENDIX 5: REPORT OF THE AUDITORS AND AUDITED FINANCIAL STATEMENTS OF FABCHEM CHINA PTE. LTD. AND SUBSIDIARY FOR THE YEAR ENDED 31 MARCH 2005**

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FABCHEM CHINA PTE. LTD. (Registration No: 200413128G)

4. CONTRACTUAL BENEFITS OF DIRECTORS

Since the date of incorporation, no director of the Company has received or become entitled to receive a benefit which is required to be disclosed under section 201(8) of the Companies Act, Cap. 50 by reason of a contract made by the Company or a related corporation with the director or with a firm of which he is a member, or with a company in which he has a substantial financial interest. Certain directors of the Company received remuneration from related corporations in their capacity as directors and or executives of those related corporations.

5. OPTIONS TO TAKE UP UNISSUED SHARES

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

6. OPTIONS EXERCISED

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

7. UNISSUED SHARES UNDER OPTION

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

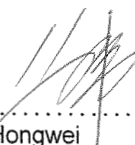
8. AUDITORS

The auditors, Chio Lim & Associates, have expressed their willingness to accept re-appointment.

ON BEHALF OF THE DIRECTORS



.....  
Sun Bowen  
Director



.....  
Bao Hongwei  
Director

30 June 2005

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**APPENDIX 5: REPORT OF THE AUDITORS AND AUDITED FINANCIAL STATEMENTS OF FABCHEM CHINA PTE. LTD. AND SUBSIDIARY FOR THE YEAR ENDED 31 MARCH 2005**

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FABCHEM CHINA PTE. LTD. (Registration No: 200413128G)

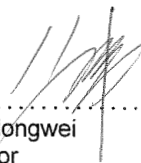
**STATEMENT OF DIRECTORS**

In the opinion of the directors, the accompanying financial statements are drawn up so as to give a true and fair view of the state of affairs of the Company and of the Group as at 31 March 2005, and the results, changes in equity and cash flows of the Group for the financial year then ended and at the date of this statement there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

ON BEHALF OF THE DIRECTORS



.....  
Sun Bowen  
Director



.....  
Bao Hongwei  
Director

30 June 2005



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## APPENDIX 5: REPORT OF THE AUDITORS AND AUDITED FINANCIAL STATEMENTS OF FABCHEM CHINA PTE. LTD. AND SUBSIDIARY FOR THE YEAR ENDED 31 MARCH 2005

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### AUDITORS' REPORT TO THE MEMBERS OF FABCHEM CHINA PTE. LTD.

We have audited the accompanying financial statements of Fabchem China Pte. Ltd. for the year ended 31 March 2005. These financial statements are the responsibility of the Company's directors. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion,

- a) the consolidated financial statements of the Group and the balance sheet of the Company are properly drawn up in accordance with the provisions of the Companies Act, Cap. 50 (the "Act") and Singapore Financial Reporting Standards so as to give a true and fair view of the state of affairs of the Group and of the Company as at 31 March 2005 and the results, changes in equity and cash flows of the Group for the year ended on that date; and
- b) the accounting and other records required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.

A handwritten signature in black ink, appearing to be 'C. C. Lim', is written over a horizontal line.

Chio Lim & Associates  
Certified Public Accountants

Singapore  
30 June 2005

*Business Advisors to Growing Businesses*

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**APPENDIX 5: REPORT OF THE AUDITORS AND AUDITED FINANCIAL STATEMENTS OF FABCHEM CHINA PTE. LTD. AND SUBSIDIARY FOR THE YEAR ENDED 31 MARCH 2005**

FABCHEM CHINA PTE. LTD. (Registration No: 200413128G)

**BALANCE SHEETS**  
As at 31 March 2005

	<u>Notes</u>	<u>Group</u> <u>2005</u> RMB'000	<u>Company</u> <u>2005</u> RMB'000
<b>ASSETS</b>			
<b>Current assets:</b>			
Cash and cash equivalents	4	682	160
Trade receivables	5	47,644	–
Other receivables and prepayments	6	2,475	1,000
Inventories	7	5,211	–
<b>Total current assets</b>		<b>56,012</b>	<b>1,160</b>
<b>Non-current assets</b>			
Investment in subsidiary	8	–	10,266
Plant and equipment	9	5,752	–
<b>Total non-current assets</b>		<b>5,752</b>	<b>10,266</b>
<b>Total assets</b>		<b>61,764</b>	<b>11,426</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current liabilities:</b>			
Trade payables and accrued liabilities	10	18,800	30
Other payables	11	1,583	1,363
<b>Total current liabilities</b>		<b>20,383</b>	<b>1,393</b>
<b>Capital and reserves:</b>			
Issued capital	12	10,000	10,000
Reserves	13	31,381	33
<b>Total equity</b>		<b>41,381</b>	<b>10,033</b>
<b>Total liabilities and equity</b>		<b>61,764</b>	<b>11,426</b>

See accompanying notes to financial statements.

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**APPENDIX 5: REPORT OF THE AUDITORS AND AUDITED FINANCIAL  
STATEMENTS OF FABCHEM CHINA PTE. LTD. AND SUBSIDIARY FOR  
THE YEAR ENDED 31 MARCH 2005**

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FABCHEM CHINA PTE. LTD. (Registration No: 200413128G)

**INCOME STATEMENT**  
Year ended 31 March 2005

	<u>Notes</u>	<u>Group</u> <u>2005</u> RMB'000
<b>Revenue</b>	14	40,721
Cost of sales		(22,964)
Gross profit		17,757
Other operating income	15	15,404
Distribution costs		(81)
Administrative expenses		(1,779)
<b>Profit before income tax</b>	16	31,301
Income tax expense	19	-
<b>Net profit for the year</b>		<u>31,301</u>
Earnings per share (RMB)	20	
- Basic		267.53
- Diluted		<u>267.53</u>

See accompanying notes to financial statements.

**APPENDIX 5: REPORT OF THE AUDITORS AND AUDITED FINANCIAL STATEMENTS OF FABCHEM CHINA PTE. LTD. AND SUBSIDIARY FOR THE YEAR ENDED 31 MARCH 2005**

FABCHEM CHINA PTE. LTD. (Registration No: 200413128G)

**STATEMENT OF CHANGES IN EQUITY**  
For the year ended 31 March 2005

<u>Group</u>	<u>Issued Capital</u> RMB'000	<u>Statutory Reserves</u> RMB'000	<u>Foreign Exchange Translation Reserve</u> RMB'000	<u>Retained Earnings</u> RMB'000	<u>Total</u> RMB'000
Balance at date of incorporation	10,000	–	–	–	10,000
Net profit for the year	–	–	–	31,301	31,301
Appropriation for the year	–	4,602	–	(4,602)	–
Foreign currency translation difference	–	–	80	–	80
Balance at 31 March 2005	<u>10,000</u>	<u>4,602</u>	<u>80</u>	<u>26,699</u>	<u>41,381</u>
		(a)	(a)		

(a) Not available for distribution as cash dividends

See accompanying notes to financial statements

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**APPENDIX 5: REPORT OF THE AUDITORS AND AUDITED FINANCIAL STATEMENTS OF FABCHEM CHINA PTE. LTD. AND SUBSIDIARY FOR THE YEAR ENDED 31 MARCH 2005**

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FABCHEM CHINA PTE. LTD. (Registration No: 200413128G)

**CONSOLIDATED CASH FLOW STATEMENT**  
**Year ended 31 March 2005**

	<u>2005</u> RMB'000
<b>Cash flows from operating activities :</b>	
Profit before income tax	31,301
Adjustments for :	
Depreciation expense	296
Interest income	(1)
Operating profit before working capital changes	31,596
Trade receivables	(47,644)
Other receivables and prepayments	(2,475)
Inventories	(5,211)
Trade payables and accrued liabilities	18,800
Other payables	1,583
Cash generated from operations	(3,351)
Net cash used in operating activities	(3,351)
<b>Cash flows from investing activities :</b>	
Purchase of plant and equipment	(6,048)
Acquisition of subsidiary net of cash acquired (Note 22)	-
Interest received	1
Net cash used in investing activities	(6,047)
<b>Cash flows from financing activities :</b>	
Proceeds from issue of shares	10,000
Net cash from financing activities	10,000
<b>Net effect of exchange rate changes in consolidating foreign currency financial statements</b>	80
<b>Net increase in cash</b>	682
Cash at beginning of year	-
<b>Cash at end of year</b>	682

See accompanying notes to financial statements.

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## APPENDIX 5: REPORT OF THE AUDITORS AND AUDITED FINANCIAL STATEMENTS OF FABCHEM CHINA PTE. LTD. AND SUBSIDIARY FOR THE YEAR ENDED 31 MARCH 2005

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FABCHEM CHINA PTE. LTD. (Registration No: 200413128G)

### NOTES TO FINANCIAL STATEMENTS 31 March 2005

#### 1. GENERAL

The company is incorporated in Singapore. The financial statements are presented in Chinese Renminbi (RMB). They are drawn up in accordance with the provisions of the Companies Act, Cap. 50 and the Singapore Financial Reporting Standards. The financial statements were approved and authorised for issue by the board of directors on 30 June 2005.

The company is a subsidiary of Fortsmith Investments Limited, incorporated in Samoa, which is also its ultimate holding company. The principal activities of the company are investment holding and those of the subsidiary are listed in Note 8 to the financial statements.

The registered office is: 7500A Beach Road #11-310 The Plaza Singapore 199591. The company is domiciled in Singapore.

#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**ACCOUNTING CONVENTION** – The financial statements are prepared in accordance with the historical cost convention.

**BASIS OF PRESENTATION** – The consolidation accounting method is used for the consolidated financial statements which include the financial statements made up to 31 March each year of the company and of those companies in which it holds, directly or indirectly through subsidiaries, over 50 percent of the shares and voting rights. The consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances. All significant intragroup balances and transactions, including income, expenses and dividends, are eliminated in full on consolidation. The results of the investees acquired or disposed of during the financial year are consolidated from the respective dates of acquisition or up to the dates of disposal. On disposal the attributable amount of unamortised goodwill is included in the determination of the gain or loss on disposal.

**REVENUE RECOGNITION** – Revenue from sale of goods is recognised when significant risks and rewards of ownership are transferred to the buyer and the amount of revenue and the costs of the transaction (including future costs) can be measured reliably. Revenue from rendering of services that are of short duration is recognised when the services are completed. Interest revenue is recognised on a time-proportion basis using the effective interest rate. Revenue is measured at the fair value of the consideration received or receivable, taking into account the amount of any trade discounts and volume rebates allowed by the entity.

**INVENTORIES** – Inventories are measured at the lower of cost and net realisable value. Costs incurred in bringing each product to its present location and condition are accounted for as follows :

Raw materials – purchase cost on a weighted average basis;

Finished goods and work-in-progress – cost of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

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## APPENDIX 5: REPORT OF THE AUDITORS AND AUDITED FINANCIAL STATEMENTS OF FABCHEM CHINA PTE. LTD. AND SUBSIDIARY FOR THE YEAR ENDED 31 MARCH 2005

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FABCHEM CHINA PTE. LTD. (Registration No: 200413128G)

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

**SUBSIDIARY** – In the company's own financial statements, the investment in subsidiary is carried at cost less any provision for impairment in value which is other than temporary.

**PLANT AND EQUIPMENT** – Plant and equipment are carried at cost less any accumulated depreciation and any accumulated impairment losses. Depreciation is provided on gross carrying amounts, after deducting residual value, in equal annual instalments over the estimated useful lives of the assets. The annual rates of depreciation are as follow:

Plant and equipment	–	9.5% to 19%
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Fully depreciated assets still in use are retained in the financial statements.

The residual value and the useful life of an asset are reviewed at least at each financial year end and, if expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate.

**IMPAIRMENT OF ASSETS** – At each reporting date an assessment is made whether there is any indication that a depreciable or amortisable asset may be impaired. If any such indication exists, an estimate is made of the recoverable amount of the asset. A provision is made for the excess of the carrying amount over the recoverable amount. The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use.

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

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

**BORROWING COSTS** – All borrowing costs are recognised as an expense in the period in which they are incurred.

**INCOME TAX** – The income taxes are accounted using the asset and liability method that requires the recognition of taxes payable or refundable for the current year and deferred tax liabilities and assets for the future tax consequence of events that have been recognised in the financial statement or tax returns. The measurements of current and deferred tax liabilities and assets are based on provisions of the enacted tax laws; the effects of future changes in tax laws or rates are not anticipated. The measurement of deferred tax assets 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 liability is recognised for all taxable temporary differences, unless the deferred tax liability arises from (a) goodwill for which amortisation is not deductible for tax purposes; or (b) the initial recognition of an asset or liability in a transaction which (i) is not a business combination; and (ii) at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

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## APPENDIX 5: REPORT OF THE AUDITORS AND AUDITED FINANCIAL STATEMENTS OF FABCHEM CHINA PTE. LTD. AND SUBSIDIARY FOR THE YEAR ENDED 31 MARCH 2005

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FABCHEM CHINA PTE. LTD. (Registration No: 200413128G)

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

**RETIREMENT BENEFITS COSTS** – Contributions to defined contribution retirement benefit plans are recorded as an expense as they fall due. Contributions made to state managed retirement benefit plans are dealt with as defined contribution retirement benefit plans.

**LEASES** – Leases where the lessor effectively retains substantially all the risks and benefits of ownership of the leased assets are classified as operating leases. For operating leases, lease payments are recognised as an expense in the income statement on a straight line basis unless another systematic basis is representative of the time pattern of the user's benefit, even if the payments are not on that basis.

**ACCOUNTING ESTIMATES** – The preparation of financial statements in conformity with generally accepted accounting principles requires the directors to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Apart from those involving estimations, management has made judgements in the process of applying the entity's accounting policies that have the most significant effect on the amounts recognised in the financial statements.

**LIABILITIES AND PROVISIONS** – A liability and 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. It is measured at the amount payable.

**CASH** – Cash for the cash flow statement includes cash and cash equivalents but excludes bank balances which have maturity of more than three months.

**FAIR VALUE OF FINANCIAL INSTRUMENTS** – The carrying values of cash, accounts receivable, other current financial assets, short-term borrowings, accounts payable and other current financial liabilities approximate their fair values due to the short-term maturity of these instruments. The fair value of long-term debt was not determined as there are no significant items as at the end of the year. Those financial assets and liabilities that have a fixed maturity are measured at amortised cost using the effective interest rate method. Those that do not have a fixed maturity are measured at cost. All financial assets are subject to review for impairment.

#### RISK MANAGEMENT POLICIES FOR FINANCIAL INSTRUMENTS

**CREDIT RISK ON FINANCIAL ASSETS** – Financial assets that are potentially subject to concentrations of credit risk consist principally of cash, cash equivalents and trade and other accounts receivable. The directors believe that the financial risks associated with these financial instruments are minimal. The company places its cash and cash equivalents with high credit quality institutions. The company performs ongoing credit evaluation of its debtors' financial condition and maintains a provision for impairment based upon the expected collectibility of all accounts receivable. There is no significant concentration of credit risk, as the exposure is spread over a large number of counterparties and customers unless otherwise disclosed in the notes to the financial statements.



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## APPENDIX 5: REPORT OF THE AUDITORS AND AUDITED FINANCIAL STATEMENTS OF FABCHEM CHINA PTE. LTD. AND SUBSIDIARY FOR THE YEAR ENDED 31 MARCH 2005

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FABCHEM CHINA PTE. LTD. (Registration No: 200413128G)

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

OTHER RISKS ON FINANCIAL INSTRUMENTS – The company monitors its interest, foreign exchange risks, and changes in fair values from time to time and any gains and losses are included in the income statement. The company is not exposed to interest rate price risk for financial instruments with a fixed interest rate and to interest rate or cash flow risk for financial instruments with a floating interest rate that is reset as market rates change. The company is exposed to changes in foreign exchange rates. The company does not utilise forward contracts or other arrangements to minimise these risks nor does it utilise financial contracts or other arrangements for trading or speculative purposes. At 31 March 2005 there were no such arrangements, interest rate swap contracts or other derivative instruments outstanding. The financial assets and liabilities are mainly in Chinese Renminbi.

### 3. RELATED PARTY TRANSACTIONS

Related parties are entities with common direct or indirect shareholders and or directors or management. Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decision. They include individual persons.

Some of the company's transactions and arrangements and terms thereof are with related parties and the effect of these on the basis determined between the parties are reflected in these financial statements. The balances are without fixed repayment terms and interest unless stated otherwise. It is impracticable to reliably estimate the fair values of the balances when there are no maturity dates and interest.

Significant related party transactions:

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

	<u>Group</u> <u>2005</u> RMB'000
Sales to external parties exported through a related party	14,684
Rental	1,250
Share of post-acquisition profits from the acquired business	15,403
Purchase of inventories	27,890
Purchase of plant and equipment	<u>6,048</u>

**APPENDIX 5: REPORT OF THE AUDITORS AND AUDITED FINANCIAL STATEMENTS OF FABCHEM CHINA PTE. LTD. AND SUBSIDIARY FOR THE YEAR ENDED 31 MARCH 2005**

FABCHEM CHINA PTE. LTD. (Registration No: 200413128G)

4. CASH AND CASH EQUIVALENTS

	<u>Group</u> 2005 RMB'000	<u>Company</u> 2005 RMB'000
Not restricted in use	<u>682</u>	<u>160</u>
Analysis of above amount denominated in foreign currency:		
Chinese Renminbi	522	–
Singapore Dollars	<u>160</u>	<u>160</u>
	<u>682</u>	<u>160</u>

The rate of interest for cash on a interest earning account is 1.0%. The effective interest rate is about 1.0%.

5. TRADE RECEIVABLES

	<u>Group</u> 2005 RMB'000	<u>Company</u> 2005 RMB'000
Related party (Note 3)	17,181	–
Outside parties	<u>30,463</u>	<u>–</u>
	<u>47,644</u>	<u>–</u>

The average credit period generally taken by customers is about 70 days. A provision for impairment is established when there is objective evidence that management will not be able to collect all amounts due according to the original terms of receivables. The carrying amount of trade receivables approximates to their fair value. Short-duration receivables with no stated interest rate are normally measured at original invoice amount unless the effect of imputing interest would be significant.

Concentration of customers:

Top 1 customer	17,181	–
Top 2 customers	22,344	–
Top 3 customers	<u>26,283</u>	<u>–</u>

**APPENDIX 5: REPORT OF THE AUDITORS AND AUDITED FINANCIAL STATEMENTS OF FABCHEM CHINA PTE. LTD. AND SUBSIDIARY FOR THE YEAR ENDED 31 MARCH 2005**

FABCHEM CHINA PTE. LTD. (Registration No: 200413128G)

6. OTHER RECEIVABLES AND PREPAYMENTS

	<u>Group</u> <u>2005</u> RMB'000	<u>Company</u> <u>2005</u> RMB'000
Loans to business associates <sup>(1)</sup>	746	-
Advances to staff for business purposes <sup>(2)</sup>	718	-
Deferred expenditure <sup>(3)</sup>	1,000	1,000
Prepayment	11	-
	<u>2,475</u>	<u>1,000</u>

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

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

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

7. INVENTORIES

	<u>Group</u> <u>2005</u> RMB'000	<u>Company</u> <u>2005</u> RMB'000
At cost:		
Raw materials	3,339	-
Finished goods	1,872	-
	<u>5,211</u>	<u>-</u>

**APPENDIX 5: REPORT OF THE AUDITORS AND AUDITED FINANCIAL STATEMENTS OF FABCHEM CHINA PTE. LTD. AND SUBSIDIARY FOR THE YEAR ENDED 31 MARCH 2005**

FABCHEM CHINA PTE. LTD. (Registration No: 200413128G)

8. INVESTMENT IN SUBSIDIARY

	<u>Company</u> <u>2005</u> RMB'000
Unlisted shares, at cost	10,266
Net book value of subsidiary (acquired on 1 November 2004)	41,614

The book value of the subsidiary is not necessarily indicative of the amounts that would be realised in a current market exchange.

<u>Name of subsidiary, country of incorporation, place of operations and principal activities</u>	<u>Cost in books of the Company 2005</u> RMB'000	<u>Percentage of equity held by the Company 2005</u> %
Shandong Yinguang Technology Co., Ltd. People's Republic of China Production and sale of civil explosive products (a)	10,266	100

(a) Audited by Chio Lim & Associates, Singapore for the purpose of presenting the group financial statements.

9. PLANT AND EQUIPMENT

<u>Group</u>	<u>RMB'000</u>
Cost:	
At date of incorporation	-
Arising from acquisition of business	6,048
At end of year	6,048
Accumulated depreciation:	
At date of incorporation	-
Depreciation for the year	296
At end of year	296
Net book value:	
At end of year	5,752

10. TRADE PAYABLES AND ACCRUED LIABILITIES

	<u>Group</u> <u>2005</u> RMB'000	<u>Company</u> <u>2005</u> RMB'000
Related party (Note 3)	12,456	-
VAT payables	6,314	-
Accruals	30	30
	18,800	30

**APPENDIX 5: REPORT OF THE AUDITORS AND AUDITED FINANCIAL STATEMENTS OF FABCHEM CHINA PTE. LTD. AND SUBSIDIARY FOR THE YEAR ENDED 31 MARCH 2005**

FABCHEM CHINA PTE. LTD. (Registration No: 200413128G)

11. OTHER PAYABLES

	<u>Group</u> 2005 RMB'000	<u>Company</u> 2005 RMB'000
Director (Note 3)	555	555
Outside parties	1,028	808
	<u>1,583</u>	<u>1,363</u>

12. ISSUED CAPITAL

	<u>Group and Company</u> 2005 S\$'000		
Authorised: 10,000,000 ordinary shares of S\$1 each	<u>10,000</u>		
	<u>Number</u> of shares '000	<u>Group</u> and Company S\$'000	<u>RMB'000</u>
Issued and fully paid: 2,000,000 ordinary shares of S\$1 each	<u>2,000</u>	<u>2,000</u>	<u>10,000</u>

During the financial year,

- (a) 2 ordinary shares of S\$1 each were issued at par for cash to the subscribers to the memorandum and articles of association;
- (b) the company issued 1,999,998 ordinary shares of S\$1 each for cash at par. The proceeds were used as working capital.

13. RESERVES

	<u>Group</u> 2005 RMB'000	<u>Company</u> 2005 RMB'000
Foreign currency translation reserves	80	80
Statutory reserves	4,602	-
Retained earnings	26,699	(47)
	<u>31,381</u>	<u>33</u>

Under the local regulation, the subsidiary is required to set up statutory reserves as required:

- (i) 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.
- (ii) a staff welfare reserve made at a rate of 5% of net profit after tax. The reserve is to be used for the construction of infrastructure for the general welfare of staff.

**APPENDIX 5: REPORT OF THE AUDITORS AND AUDITED FINANCIAL STATEMENTS OF FABCHEM CHINA PTE. LTD. AND SUBSIDIARY FOR THE YEAR ENDED 31 MARCH 2005**

FABCHEM CHINA PTE. LTD. (Registration No: 200413128G)

14.	REVENUE	<u>Group</u> <u>2005</u> RMB'000
	Sale of goods	<u>40,721</u>
15.	OTHER OPERATING INCOME	<u>Group</u> <u>2005</u> RMB'000
	Share of post-acquisition profits from the acquired business	15,403
	Interest income	1
		<u>15,404</u>
16.	PROFIT BEFORE INCOME TAX	
	In addition to the charges and credits disclosed elsewhere in the notes, this item includes the following charges:-	
		<u>Group</u> <u>2005</u> RMB'000
	Auditors' remuneration	
	- auditors of the Company	30
	Directors' remuneration	
	- Directors of subsidiary company	13
	Raw materials and consumables used	23,331
	Changes in inventories of finished goods	<u>(1,872)</u>
17.	STAFF COSTS	<u>Group</u> <u>2005</u> RMB'000
	Staff costs including directors	936
	Contribution to defined contribution plans	188
	Total staff costs	<u>1,124</u>
18.	NUMBER OF EMPLOYEES	<u>Group</u> <u>2005</u>
	Number of employees at end of year (including directors)	<u>708</u>

**APPENDIX 5: REPORT OF THE AUDITORS AND AUDITED FINANCIAL STATEMENTS OF FABCHEM CHINA PTE. LTD. AND SUBSIDIARY FOR THE YEAR ENDED 31 MARCH 2005**

FABCHEM CHINA PTE. LTD. (Registration No: 200413128G)

19. INCOME TAX

Group  
2005  
RMB'000

Current -----

The income tax expense varied from the amount of income tax expense determined by applying the Singapore income tax rate of 20% to profit before income tax as a result of the following differences:-

Group  
2005  
RMB'000

Income tax expense at the statutory rate	6,260
Non-allowable items	9
Effect of different tax rate in foreign country	4,075
Tax exemptions	<u>(10,344)</u>
Total income tax expense	<u>-----</u>

A subsidiary of the group is located in the People's Republic of China ("PRC") and subject to PRC tax. Pursuant to the Income Tax Law of the PRC concerning Foreign Investment Enterprises and Foreign Enterprises and various local income tax laws, foreign investment enterprises are subject to the statutory income tax rate of 33% (30% state income tax plus 3% local income tax) unless the enterprises are located in specially designated regions or cities in which more favourable tax rates will apply. The company is located in a region where the tax rate of 33% applies. No income tax expense is incurred for the year as the company is entitled to income tax exemption for the two years commencing from the first profitable year (after deducting losses carried forward) and a 50% reduction for the succeeding three years. Profits have been derived in the company's first year of operation.

There is no income tax consequence of dividends to shareholders of the company.

20. EARNINGS PER SHARE

The earnings per share is calculated by dividing the group's profit attributable to shareholders by the number of shares of S\$1 in issue during the year.

The calculation of the earnings per share is based on the following:

Group  
2005

Net profit for the year (RMB'000)	<u>31,301</u>
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Number of shares ('000)

Weighted average number of ordinary shares for the purposes of basic earnings per share	<u>117</u>
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Earnings per share (RMB)	<u>267.53</u>
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There is no dilution of earnings per share as there are no dilutive potential shares outstanding at the year end.

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**APPENDIX 5: REPORT OF THE AUDITORS AND AUDITED FINANCIAL STATEMENTS OF FABCHEM CHINA PTE. LTD. AND SUBSIDIARY FOR THE YEAR ENDED 31 MARCH 2005**

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FABCHEM CHINA PTE. LTD. (Registration No: 200413128G)

21. OPERATING LEASE COMMITMENTS

At the balance sheet date the commitments in respect of operating leases with a term of more than one year were as follows:

	2005 RMB'000
Within one year	3,000
Within 2 to 5 years	4,750
Rental expense for the year	1,250

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

22. ACQUISITION OF SUBSIDIARY

During the year, the Company acquired the subsidiary Shandong Yinguang Technology Co., Ltd. The fair value of assets and liabilities acquired were as follow :-

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

23. FINANCIAL INFORMATION BY SEGMENTS

Segment reporting policy:

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

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

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

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

The group has one primary segment which is in the sale of civil explosive products.



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**APPENDIX 5: REPORT OF THE AUDITORS AND AUDITED FINANCIAL STATEMENTS OF FABCHEM CHINA PTE. LTD. AND SUBSIDIARY FOR THE YEAR ENDED 31 MARCH 2005**

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FABCHEM CHINA PTE. LTD. (Registration No: 200413128G)

23 FINANCIAL INFORMATION BY SEGMENTS (Cont'd)

**Geographical segments**

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

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

24. SUBSEQUENT EVENTS

Subsequent to the balance sheet date:

- a) the subsidiary has increased its registered and paid-up share capital to RMB 35 million and
- b) the company issued 5,000,000 ordinary shares of S\$1 each by the capitalisation of S\$5,000,000 dividends received from the subsidiary.

25. COMPARATIVE FIGURES

The financial statements cover the financial year since incorporation on 12 October 2004 to 31 March 2005. This being the first set of financial statements, there are no comparative figures.

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**APPENDIX 6: REPORT OF THE AUDITORS AND AUDITED FINANCIAL STATEMENTS OF SHANDONG YINGUANG CHEMICAL INDUSTRY CO., LTD. FOR THE YEARS ENDED 31 MARCH 2003, 31 MARCH 2004 AND 31 MARCH 2005**

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SHANDONG YINGUANG CHEMICAL INDUSTRY CO., LTD. 山东银光化工股份有限公司

**FINANCIAL STATEMENTS**

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**APPENDIX 6: REPORT OF THE AUDITORS AND AUDITED FINANCIAL STATEMENTS OF SHANDONG YINGUANG CHEMICAL INDUSTRY CO., LTD. FOR THE YEARS ENDED 31 MARCH 2003, 31 MARCH 2004 AND 31 MARCH 2005**

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SHANDONG YINGUANG CHEMICAL INDUSTRY CO., LTD. 山东银光化工股份有限公司

**STATEMENT OF DIRECTORS**

In the opinion of the directors, the accompanying financial statements are drawn up so as to give a true and fair view of the state of affairs of the Company as at 31 March 2003, 2004 and 2005 and of the results, changes in equity and cash flows of the Company for the financial years then ended 31 March 2003, 2004 and 2005 and at these dates, there are reasonable grounds to believe the Company will be able to pay its debts as and when they fall due.

No group financial statements have been prepared for inclusion in this report as required by the Singapore Financial Reporting Standard 27, as the directors are of the opinion that there is no practical benefit to include the group financial statements for the purpose of this report.

ON BEHALF OF THE DIRECTORS



.....  
Sun Bowen  
Director

  
.....  
Bao Hongwei  
Director

20 June 2005

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## APPENDIX 6: REPORT OF THE AUDITORS AND AUDITED FINANCIAL STATEMENTS OF SHANDONG YINGUANG CHEMICAL INDUSTRY CO., LTD. FOR THE YEARS ENDED 31 MARCH 2003, 31 MARCH 2004 AND 31 MARCH 2005

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### AUDITORS' REPORT TO THE BOARD OF DIRECTORS

#### SHANDONG YINGUANG CHEMICAL INDUSTRY CO., LTD.

山东银光化工股份有限公司

We have audited the accompanying financial statements of Shandong Yinguang Chemical Industry Co., Ltd (山东银光化工股份有限公司) for the financial years ended 31 March 2003, 2004 and 2005. These financial statements are the responsibility of the Company's directors. Our responsibility is to express an opinion on these financial statements based on our audit. This report is to be used solely for the purpose of preparing the group financial statements of the pro forma group of Fabchem China Pte. Ltd.

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

The Company did not present a set of consolidated financial statements in accordance with Singapore Financial Reporting Standard 27, which requires the preparation of one set of consolidated financial statements for the company and its subsidiaries. The Company's directors are of the opinion there is no practical benefit to include the consolidated financial statements for the purpose of this report. For this reason, we do not concur with the Company's presentation of consolidation financial statements.

Except for the foregoing, in our opinion, the financial statements of the Company are properly drawn up in accordance with the Singapore Financial Reporting Standards and present fairly, in all material respects, the state of affairs of the Company as at 31 March 2003, 2004 and 2005 and of the results, changes in equity and cash flows of the Company for the financial years ended 31 March 2003, 2004 and 2005.

Chio Lim & Associates  
Certified Public Accountants  
Singapore

20 June 2005

*Business Advisors to Growing Businesses*

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**APPENDIX 6: REPORT OF THE AUDITORS AND AUDITED FINANCIAL STATEMENTS OF SHANDONG YINGUANG CHEMICAL INDUSTRY CO., LTD. FOR THE YEARS ENDED 31 MARCH 2003, 31 MARCH 2004 AND 31 MARCH 2005**

SHANDONG YINGUANG CHEMICAL INDUSTRY CO., LTD. 山东银光化工股份有限公司

**BALANCE SHEETS**

		<----- As at 31 March ----->		
		<u>2005</u>	<u>2004</u>	<u>2003</u>
		RMB'000	RMB'000	RMB'000
<b>ASSETS</b>				
<b>Current assets</b>				
Cash and cash equivalents	5	70,180	45,914	12,296
Trade receivables	6	70,887	62,970	46,867
Other receivables and prepayments	7	103,188	51,422	26,681
Inventories	8	<u>12,523</u>	<u>24,072</u>	<u>13,552</u>
<b>Total current assets</b>		<u>256,778</u>	<u>184,378</u>	<u>99,396</u>
<b>Non-current assets</b>				
Investments in subsidiaries	9	1,500	4,930	5,156
Other investments	10	510	1,363	1,363
Property, plant and equipment	11	<u>63,395</u>	<u>62,905</u>	<u>46,036</u>
<b>Total non-current assets</b>		<u>65,405</u>	<u>69,198</u>	<u>52,555</u>
<b>Total assets</b>		<u>322,183</u>	<u>253,576</u>	<u>151,951</u>
<b>LIABILITIES AND EQUITY</b>				
<b>Current liabilities</b>				
Short-term borrowings	12	189,050	110,570	34,100
Trade payables and accrued liabilities	13	20,592	22,330	10,228
Other payables	14	17,506	12,989	12,402
Income tax payable		11,727	6,632	2,380
Current portion of long-term borrowings	15	<u>-</u>	<u>23,200</u>	<u>-</u>
<b>Total current liabilities</b>		<u>238,875</u>	<u>175,721</u>	<u>59,110</u>
<b>Non-current liabilities :</b>				
Long term borrowings	15	<u>-</u>	<u>-</u>	<u>23,200</u>
<b>Total non-current liabilities</b>		<u>-</u>	<u>-</u>	<u>23,200</u>
<b>Capital and reserves</b>				
Issued capital	16	40,176	40,176	40,176
Reserves	17	<u>43,132</u>	<u>37,679</u>	<u>29,465</u>
<b>Total equity</b>		<u>83,308</u>	<u>77,855</u>	<u>69,641</u>
<b>Total liabilities and equity</b>		<u>322,183</u>	<u>253,576</u>	<u>151,951</u>

See accompanying notes to financial statements.

**APPENDIX 6: REPORT OF THE AUDITORS AND AUDITED FINANCIAL STATEMENTS OF SHANDONG YINGUANG CHEMICAL INDUSTRY CO., LTD. FOR THE YEARS ENDED 31 MARCH 2003, 31 MARCH 2004 AND 31 MARCH 2005**

SHANDONG YINGUANG CHEMICAL INDUSTRY CO., LTD. 山东银光化工股份有限公司

**INCOME STATEMENTS**

	<u>Notes</u>	<----- Year ended 31 March ----->		
		<u>2005</u> RMB'000	<u>2004</u> RMB'000	<u>2003</u> RMB'000
<b>Revenue</b>	18	108,669	101,635	75,195
Cost of sales		(66,284)	(68,286)	(43,996)
Gross profit		<u>42,385</u>	<u>33,349</u>	<u>31,199</u>
Other operating income	19	6,627	2,683	560
Distribution costs		(6,428)	(4,379)	(4,641)
Administrative expenses		(21,500)	(4,824)	(5,473)
Other credits/(charges)	20	10,396	(840)	(1,712)
<b>Profit from operations</b>		<u>31,480</u>	<u>25,989</u>	<u>19,933</u>
Finance cost	21	(8,682)	(5,402)	(3,800)
<b>Profit before income tax</b>	22	<u>22,798</u>	<u>20,587</u>	<u>16,133</u>
Income tax expense	23	(12,524)	(7,552)	(6,359)
<b>Profit for the year</b>		<u><u>10,274</u></u>	<u><u>13,035</u></u>	<u><u>9,774</u></u>

See accompanying notes to financial statements.

**APPENDIX 6: REPORT OF THE AUDITORS AND AUDITED FINANCIAL STATEMENTS OF SHANDONG YINGUANG CHEMICAL INDUSTRY CO., LTD. FOR THE YEARS ENDED 31 MARCH 2003, 31 MARCH 2004 AND 31 MARCH 2005**

SHANDONG YINGUANG CHEMICAL INDUSTRY CO., LTD. 山东银光化工股份有限公司

**STATEMENTS OF CHANGES IN EQUITY**  
For the years ended 31 March 2003, 2004 and 2005

	<u>Issued Capital</u> RMB'000	<u>Capital Surplus</u> RMB'000	<u>Statutory Reserves</u> RMB'000	<u>Retained Earnings</u> RMB'000	<u>Total</u> RMB'000
Balance at 31 March 2002	40,176	4,793	5,584	13,332	63,885
Profit for the year	-	-	-	9,774	9,774
Appropriation for the year	-	-	1,425	(1,425)	-
Dividends (Note 24)	-	-	-	(4,018)	(4,018)
Balance at 31 March 2003	40,176	4,793	7,009	17,663	69,641
Profit for the year	-	-	-	13,035	13,035
Appropriation for the year	-	-	1,948	(1,948)	-
Dividends (Note 24)	-	-	-	(4,821)	(4,821)
Balance at 31 March 2004	40,176	4,793	8,957	23,929	77,855
Profit for the year	-	-	-	10,274	10,274
Appropriation for the year	-	-	2,640	(2,640)	-
Dividends (Note 24)	-	-	-	(4,821)	(4,821)
Balance at 31 March 2005	40,176	4,793	11,597	26,742	83,308
		(a)	(a)		

(a) Not available for distribution as cash dividends

See accompanying notes to financial statements.

**APPENDIX 6: REPORT OF THE AUDITORS AND AUDITED FINANCIAL STATEMENTS OF SHANDONG YINGUANG CHEMICAL INDUSTRY CO., LTD. FOR THE YEARS ENDED 31 MARCH 2003, 31 MARCH 2004 AND 31 MARCH 2005**

SHANDONG YINGUANG CHEMICAL INDUSTRY CO., LTD. 山东银光化工股份有限公司

**CASH FLOW STATEMENTS**

For the years ended 31 December 2003, 2004 and 2005

	2005 RMB'000	2004 RMB'000	2003 RMB'000
<b>Cash flows from operating activities:</b>			
Profit before income tax	22,798	20,587	16,133
Adjustments for:			
Depreciation expense	2,921	2,218	1,624
Interest income	(4,337)	(2,363)	(400)
Interest expense	8,682	5,402	3,800
Provision for impairment of investment	-	226	44
(Gain)/loss on disposal of investment	(270)	-	431
Loss on disposal of property, plant and equipment	125	95	-
Operating profit before working capital changes	<u>29,919</u>	<u>26,165</u>	<u>21,632</u>
Trade receivables	(7,917)	(16,103)	(6,108)
Other receivables and prepayments	15,684	9,829	12,726
Inventories	11,549	(10,520)	(6,035)
Trade payables	(1,738)	12,102	2,053
Other payables	4,517	587	11,574
Cash generated from operations	<u>52,014</u>	<u>22,060</u>	<u>35,842</u>
Income tax paid	(7,429)	(3,300)	(9,842)
Net cash from operating activities	<u>44,585</u>	<u>18,760</u>	<u>26,000</u>
<b>Cash flows from investing activities:</b>			
Disposal of property, plant and equipment	6,245	2,976	-
Purchase of property, plant and equipment	(9,781)	(22,158)	(8,436)
Disposal of investment in subsidiary	5,200	-	-
Increase in investment in subsidiary	(1,500)	-	(5,200)
Disposal of other investments	1,363	-	4,342
Increase in other investments	(510)	-	(1,350)
Interest received	4,337	2,363	400
Net cash from (used in) investing activities	<u>5,354</u>	<u>(16,819)</u>	<u>(10,244)</u>
<b>Cash flows from financing activities:</b>			
Increase in restricted bank deposits	(20,300)	(45,000)	-
Increase in loan to related companies (parties)	(67,450)	(34,570)	(20,300)
Increase in short-term borrowings	78,480	76,470	16,900
Decrease in long-term borrowings	(23,200)	-	-
Dividend paid	(4,821)	(4,821)	(4,018)
Interest paid	(8,682)	(5,402)	(3,800)
Net cash used in financing activities	<u>(45,973)</u>	<u>(13,323)</u>	<u>(11,218)</u>
<b>Net increase (decrease) in cash</b>	<b>3,966</b>	<b>(11,382)</b>	<b>4,538</b>
<b>Cash at beginning of year</b>	<b>914</b>	<b>12,296</b>	<b>7,758</b>
<b>Cash at end of year (Note 5)</b>	<b><u>4,880</u></b>	<b><u>914</u></b>	<b><u>12,296</u></b>

See accompanying notes to financial statements.



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## APPENDIX 6: REPORT OF THE AUDITORS AND AUDITED FINANCIAL STATEMENTS OF SHANDONG YINGUANG CHEMICAL INDUSTRY CO., LTD. FOR THE YEARS ENDED 31 MARCH 2003, 31 MARCH 2004 AND 31 MARCH 2005

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SHANDONG YINGUANG CHEMICAL INDUSTRY CO., LTD. 山东银光化工股份有限公司

### NOTES TO FINANCIAL STATEMENTS 31 March 2003, 2004 and 2005

#### 1 GENERAL

The Company is incorporated in the People's Republic of China. The financial statements are presented in Chinese Renminbi ("RMB"). They are drawn up in accordance with the Singapore Financial Reporting Standards. The financial statements were approved and authorised for issue by the board of directors on 20 June 2005.

The Company is principally engaged in the production and sale of civil explosive products.

The principal place of business for the Company is at No. 129, Heping Road, Feixian County, Shandong, People's Republic of China. The company is domiciled in the People's Republic of China.

#### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**ACCOUNTING CONVENTION** – The financial statements are prepared in accordance with the historical cost convention.

**REVENUE RECOGNITION** – Revenue from sale of goods is recognised when significant risks and rewards of ownership are transferred to the buyer and the amount of revenue and the costs of the transaction (including future costs) can be measured reliably. Interest revenue is recognised on a time-proportion basis using the effective interest rate. Rental revenue is recognised on a time-proportion basis. Revenue is measured at the fair value of the consideration received or receivable, taking into account the amount of any trade discounts and volume rebates allowed by the entity.

**INVENTORIES** – Inventories are measured at the lower of cost and net realisable value. Costs incurred in bringing each product to its present location and condition are accounted for as follows :

Raw materials – purchase cost on a weighted average basis;

Finished goods and work-in-progress – cost of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

**SUBSIDIARIES** – In the Company's own financial statements, the investments in subsidiaries are carried at cost less any provision for impairment in value which is other than temporary.

**NON-CURRENT INVESTMENTS** – Non-current investments held as available-for-sale financial assets are stated at cost less any provision for impairment in value which is recognised in the income statement. The transactions are recorded at the trade date. A gain or loss on remeasuring available-for-sale financial assets or liability to fair value (other than those relating to hedges) is recognised in the income statement.

Unquoted investments are stated at cost less provision for impairment in value because there is no reliable method to determine the fair value of these investments.

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**APPENDIX 6: REPORT OF THE AUDITORS AND AUDITED FINANCIAL STATEMENTS OF SHANDONG YINGUANG CHEMICAL INDUSTRY CO., LTD. FOR THE YEARS ENDED 31 MARCH 2003, 31 MARCH 2004 AND 31 MARCH 2005**

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SHANDONG YINGUANG CHEMICAL INDUSTRY CO., LTD. 山东银光化工股份有限公司

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

PROPERTY, PLANT AND EQUIPMENT – Property, plant and equipment are carried at cost less any accumulated depreciation and any accumulated impairment losses. Depreciation is provided on gross carrying amounts, after deducting residual value, in equal annual instalments over the estimated useful lives of the assets. The annual rates of depreciation are as follows:

Land use rights	–	2% to 6.7%
Properties and improvements	–	2.4% to 4.8%
Plant and equipment	–	9.5% to 19%

Fully depreciated assets still in use are retained in the financial statements.

The residual value and the useful life of an asset are reviewed at least at each financial year end and, if expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate.

IMPAIRMENT OF ASSETS – At each reporting date an assessment is made whether there is any indication that a depreciable or amortisable asset may be impaired. If any such indication exists, an estimate is made of the recoverable amount of the asset. A provision is made for the excess of the carrying amount over the recoverable amount. The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use.

BORROWING COSTS – All borrowing costs are recognised as an expense in the period in which they are incurred.

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

INCOME TAX – The income taxes are accounted using the asset and liability method that requires the recognition of taxes payable or refundable for the current year and deferred tax liabilities and assets for the future tax consequence of events that have been recognised in the financial statement or tax returns. The measurements of current and deferred tax liabilities and assets are based on provisions of the enacted tax laws; the effects of future changes in tax laws or rates are not anticipated. The measurement of deferred tax assets 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 liability is recognised for all taxable temporary differences.

RETIREMENT BENEFITS COSTS – Contributions to defined contribution retirement benefit plans are recorded as an expense as they fall due. Contributions made to state managed retirement benefit plans are dealt with as defined contribution retirement benefit plans.

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## APPENDIX 6: REPORT OF THE AUDITORS AND AUDITED FINANCIAL STATEMENTS OF SHANDONG YINGUANG CHEMICAL INDUSTRY CO., LTD. FOR THE YEARS ENDED 31 MARCH 2003, 31 MARCH 2004 AND 31 MARCH 2005

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SHANDONG YINGUANG CHEMICAL INDUSTRY CO., LTD. 山东银光化工股份有限公司

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

**GOVERNMENT GRANTS** – A government grant is recognised 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 taken to income in the same period as the related costs. Grants related to depreciable assets are allocated to income over the period in which such assets are used in the project subsidised by the grant. Government grants related to assets, including non-monetary grants at fair value, are presented in the balance sheet by deducting the grant in arriving at the carrying amount of the asset.

**ACCOUNTING ESTIMATES** – The preparation of financial statements in conformity with generally accepted accounting principles requires the directors to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Apart from those involving estimations, management has made judgements in the process of applying the entity's accounting policies that have the most significant effect on the amounts recognised in the financial statements.

**LIABILITIES AND PROVISIONS** – A liability and 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. It is measured at the amount payable.

**CASH** – Cash for the cash flow statement includes cash and cash equivalents but excludes bank balances which have maturity of more than three months.

**FAIR VALUE OF FINANCIAL INSTRUMENTS** – The carrying values of cash, accounts receivable, other current financial assets, short-term borrowings, accounts payable and other current financial liabilities approximate their fair values due to the short-term maturity of these instruments. The fair value of long-term debt was not determined as there are no significant items as at the end of the year. Those financial assets and liabilities that have a fixed maturity are measured at amortised cost using the effective interest rate method. Those that do not have a fixed maturity are measured at cost. All financial assets are subject to review for impairment.

#### **RISK MANAGEMENT POLICIES FOR FINANCIAL INSTRUMENTS**

**CREDIT RISK ON FINANCIAL ASSETS** – Financial assets that are potentially subject to concentrations of credit risk consist principally of cash, cash equivalents and trade and other accounts receivable. The directors believe that the financial risks associated with these financial instruments are minimal. The Company places its cash and cash equivalents with high credit quality institutions. The Company performs ongoing credit evaluation of its debtors' financial condition and maintains a provision for impairment based upon the expected collectibility of all accounts receivable. There is no significant concentration of credit risk, as the exposure is spread over a large number of counterparties and customers unless otherwise disclosed in the notes to the financial statements.

**APPENDIX 6: REPORT OF THE AUDITORS AND AUDITED FINANCIAL STATEMENTS OF SHANDONG YINGUANG CHEMICAL INDUSTRY CO., LTD. FOR THE YEARS ENDED 31 MARCH 2003, 31 MARCH 2004 AND 31 MARCH 2005**

SHANDONG YINGUANG CHEMICAL INDUSTRY CO., LTD. 山东银光化工股份有限公司

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

OTHER RISKS ON FINANCIAL INSTRUMENTS – The Company monitors its interest, foreign exchange risks, and changes in fair values from time to time and any gains and losses are included in the income statement. The Company is not exposed to interest rate price risk for financial instruments with a fixed interest rate and to interest rate or cash flow risk for financial instruments with a floating interest rate that is reset as market rates change. The Company is exposed to changes in foreign exchange rates. The Company does not utilise forward contracts or other arrangements to minimise these risks nor does it utilise financial contracts or other arrangements for trading or speculative purposes. At 31 March 2005 there were no such arrangements, interest rate swap contracts or other derivative instruments outstanding.

3. RELATED COMPANY TRANSACTIONS

The Company is a subsidiary of Shandong Yinsheng Investment Co., Ltd (山东银升投资有限公司), incorporated in the People's Republic of China, which is also the Company's ultimate holding company. Related companies in these financial statements refer to members of the ultimate holding company's group of companies.

Some of the Company's transactions and arrangements and terms thereof are arranged by or between 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 without fixed repayment terms and interest unless stated otherwise. It is impracticable to reliably estimate the fair values of the balances when there are no maturity dates and interest.

Significant intercompany transactions:

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

	<u>2005</u> RMB'000	<u>2004</u> RMB'000	<u>2003</u> RMB'000
Revenue	–	753	–
Purchase of goods	3,934	3,850	2,221
Purchase of property, plant and equipment	–	–	1,973
Sale of property, plant and equipment	100	2,973	–
Interest income	2,884	2,155	336
Freight charges	–	1,254	145
Management fee	–	–	1,132
Rental income	187	320	44

4. RELATED PARTY TRANSACTIONS

Related parties are entities with common direct or indirect shareholders and or directors or management. Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decision. They include associates and individual persons.

**APPENDIX 6: REPORT OF THE AUDITORS AND AUDITED FINANCIAL STATEMENTS OF SHANDONG YINGUANG CHEMICAL INDUSTRY CO., LTD. FOR THE YEARS ENDED 31 MARCH 2003, 31 MARCH 2004 AND 31 MARCH 2005**

SHANDONG YINGUANG CHEMICAL INDUSTRY CO., LTD. 山东银光化工股份有限公司

4. RELATED PARTY TRANSACTIONS (Cont'd)

Some of the Company's transactions and arrangements and terms thereof are with related parties. Some of the Company's transactions and arrangements are with related parties and the effect of these on the basis determined between the parties are reflected in these financial statements. The balances are without fixed repayment terms and interest unless stated otherwise. It is impracticable to reliably estimate the fair values of the balances when there are no maturity dates and interest.

Significant related party transactions:

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

	<u>2005</u> RMB'000	<u>2004</u> RMB'000	<u>2003</u> RMB'000
Revenue <sup>(*)</sup>	27,933	14,029	-
Purchase of goods	35,938	11,208	-
Sales of inventories	27,890	-	-
Purchase of property, plant and equipment	2,812	-	-
Sale of plant and equipment	6,048	-	-
Interest income	619	-	-
Transfer of post-disposal profits on business	15,403	-	-
Freight charges	1,191	-	-
Rental income	1,383	-	-
Disposal of investment	6,150	-	-
	<u>4,422</u>	<u>3,209</u>	<u>-</u>

<sup>(\*)</sup> Included in these amounts are export sales to overseas customers through a related party

5. CASH AND CASH EQUIVALENTS

	<u>2005</u> RMB'000	<u>2004</u> RMB'000	<u>2003</u> RMB'000
Not restricted in use	4,880	914	12,296
Restricted in use (a)	65,300	45,000	-
	<u>70,180</u>	<u>45,914</u>	<u>12,296</u>

(a) This is for bank deposit held by bankers as a security for certain banking facilities (Note 9).

The rate of interest for cash on interest earning accounts is approximately 1.0% (2004: 1.0%, 2003: 1.0%). The effective interest rate is 1.0% (2004: 1.0%, 2003: 1.0%).

CASH AND CASH EQUIVALENTS IN THE CASH FLOW STATEMENT:

	<u>2005</u> RMB'000	<u>2004</u> RMB'000	<u>2003</u> RMB'000
As shown above	70,180	45,914	12,296
Restricted bank deposits	(65,300)	(45,000)	-
Cash and cash equivalents at end of year	<u>4,880</u>	<u>914</u>	<u>12,296</u>

**APPENDIX 6: REPORT OF THE AUDITORS AND AUDITED FINANCIAL STATEMENTS OF SHANDONG YINGUANG CHEMICAL INDUSTRY CO., LTD. FOR THE YEARS ENDED 31 MARCH 2003, 31 MARCH 2004 AND 31 MARCH 2005**

SHANDONG YINGUANG CHEMICAL INDUSTRY CO., LTD. 山东银光化工股份有限公司

6. TRADE RECEIVABLES

	2005 RMB'000	2004 RMB'000	2003 RMB'000
Related parties (Note 4)	25,147	7,466	–
Outside parties	48,363	58,127	48,308
Less provision for impairment	<u>(2,623)</u>	<u>(2,623)</u>	<u>(1,441)</u>
	<u>70,887</u>	<u>62,970</u>	<u>46,867</u>
Movements in above provision:			
Balance at beginning of year	2,623	1,441	908
Charge to income statement	–	1,376	533
Bad debts written off	–	<u>(194)</u>	–
Balance at end of year	<u>2,623</u>	<u>2,623</u>	<u>1,441</u>

The average credit period generally taken by customers is about 90 days (2004: 90 days; 2003: 90 days). A provision for impairment is established when there is objective evidence that management will not be able to collect all amounts due according to the original terms of receivables. The carrying amount of trade receivables approximates to their fair value. Short-duration receivables with no stated interest rate are normally measured at original invoice amount unless the effect of imputing interest would be significant.

Concentration of customers:

	2005 RMB'000	2004 RMB'000	2003 RMB'000
Top 1 customer	27,928	23,548	38,039
Top 2 customers	40,545	31,014	39,156
Top 3 customers	<u>49,397</u>	<u>38,427</u>	<u>40,129</u>

7. OTHER RECEIVABLES AND PREPAYMENTS

	2005 RMB'000	2004 RMB'000	2003 RMB'000
Holding company (Note 3)	32,112	29,925	14,352
Subsidiaries (Note 3 and 9)	7,035	3,972	2,019
Related companies (Note 3)	22,379	8,637	4,109
Related parties (Note 4)	19,663	–	–
Loan to business associates	18,115	6,422	4,501
Less provision for impairment	<u>(263)</u>	<u>(263)</u>	<u>(1,265)</u>
Advances to suppliers	2,832	1,467	2,149
Advances to staff	1,114	730	369
Prepayment	<u>201</u>	<u>532</u>	<u>447</u>
	<u>103,188</u>	<u>51,422</u>	<u>26,681</u>
Movements in above provision:			
Balance at beginning of year	263	1,265	589
(Reversed) / charge to income statement	–	(882)	676
Bad debts written off	–	<u>(120)</u>	–
Balance at end of year	<u>263</u>	<u>263</u>	<u>1,265</u>

Loan to related companies (parties) – The loans are at 0.6% interest in 2005 (2004: 0.6% and 2003: 0.6%). There is no fixed term for the repayment of the loan. The directors consider that the carrying amount of these loans approximate to their fair values.

**APPENDIX 6: REPORT OF THE AUDITORS AND AUDITED FINANCIAL STATEMENTS OF SHANDONG YINGUANG CHEMICAL INDUSTRY CO., LTD. FOR THE YEARS ENDED 31 MARCH 2003, 31 MARCH 2004 AND 31 MARCH 2005**

SHANDONG YINGUANG CHEMICAL INDUSTRY CO., LTD. 山东银光化工股份有限公司

8. INVENTORIES

	2005 RMB'000	2004 RMB'000	2003 RMB'000
<u>At cost</u>			
Finished goods	4,046	11,845	8,285
Raw materials	8,207	12,035	5,088
Consumables	270	192	179
	12,523	24,072	13,552

9. INVESTMENTS IN SUBSIDIARIES

	2005 RMB'000	2004 RMB'000	2003 RMB'000
Unlisted equity investments, at cost	1,500	5,200	5,200
Less provision for impairment	—	(270)	(44)
Net book value of subsidiaries	1,500	4,930	5,156

Movements in provision:

	2005	2004	2003
Balance at beginning of year	270	44	—
(Reversed) / charge to income statement	(270)	226	44
Balance at end of year	—	270	44

The fair value of the subsidiaries as available-for-sale financial assets is deemed to be not reliably measurable as the probabilities of the various estimates within the range cannot be reasonably assessed as used in estimating fair values. Consequently the investment is carried at cost less provision for impairment.

Name of subsidiaries, country of incorporation, place of operations and principal activities

	<u>Cost in the books of the Company</u>			<u>Percentage of equity interest held by the Company</u>		
	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
	RMB'000	RMB'000	RMB'000	%	%	%
Feixian Yinguang Transportation Co., Ltd (费县银光运输有限公司) The People's Republic of China Transportation of explosive products	—	400	400	—	80	80
Shandong Yinguang Zhaozhuang Chemical Industries Co., Ltd (山东银光枣庄化工有限公司) The People's Republic of China Manufacture of industrial products	—	4,800	4,800	—	94.3	94.3

**APPENDIX 6: REPORT OF THE AUDITORS AND AUDITED FINANCIAL STATEMENTS OF SHANDONG YINGUANG CHEMICAL INDUSTRY CO., LTD. FOR THE YEARS ENDED 31 MARCH 2003, 31 MARCH 2004 AND 31 MARCH 2005**

SHANDONG YINGUANG CHEMICAL INDUSTRY CO., LTD. 山东银光化工股份有限公司

9. INVESTMENTS IN SUBSIDIARIES (Cont'd)

Name of subsidiaries, country of incorporation, place of operations and principal activities	Cost in the books of the Company			Percentage of equity interest held by the Company		
	2005	2004	2003	2005	2004	2003
	RMB'000	RMB'000	RMB'000	%	%	%
LinYi Yinguang Printing and Packaging Co., Ltd (临沂银光印刷包装有限公司) The People's Republic of China Printing of packaging materials	1,500	-	-	75	-	-
	1,500	5,200	5,200			

The financial statements of the above subsidiaries were audited by firms of accountants other than member firms of Howarth International of which Chio Lim & Associates, Singapore is a member.

10. OTHER INVESTMENTS

	2005	2004	2003
	RMB'000	RMB'000	RMB'000
<u>At cost:</u>			
Unquoted equity investment	510	1,350	1,350
Long term bonds, unquoted	-	13	13
	510	1,363	1,363

11. PROPERTY, PLANT AND EQUIPMENT

	Land use rights	Properties and improvements	Plant and equipment	Construction in-progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<u>Cost:</u>					
At 1 April 2002	4,908	25,454	6,687	6,826	43,875
Additions	-	405	1,370	6,661	8,436
Transferred from construction-in-progress	-	5,854	1,893	(7,747)	-
At 31 March 2003	4,908	31,713	9,950	5,740	52,311
Additions	-	12,152	2,772	7,234	22,158
Transferred from construction-in-progress	-	9,567	-	(9,567)	-
Disposals	-	(79)	(433)	(2,973)	(3,485)
At 31 March 2004	4,908	53,353	12,289	434	70,984
Additions	4,653	89	2,663	2,376	9,781
Transfer from construction-in-progress	-	2,145	-	(2,145)	-
Disposals	-	-	(10,497)	-	(10,497)
At 31 March 2005	9,561	55,587	4,455	665	70,268



**APPENDIX 6: REPORT OF THE AUDITORS AND AUDITED FINANCIAL STATEMENTS OF SHANDONG YINGUANG CHEMICAL INDUSTRY CO., LTD. FOR THE YEARS ENDED 31 MARCH 2003, 31 MARCH 2004 AND 31 MARCH 2005**

SHANDONG YINGUANG CHEMICAL INDUSTRY CO., LTD. 山东银光化工股份有限公司

11. PROPERTY, PLANT AND EQUIPMENT (Cont'd)

	Land use rights RMB'000	Properties and improvements RMB'000	Plant and equipment RMB'000	Construction in-progress RMB'000	Total RMB'000
<u>Accumulated depreciation:</u>					
At 1 April 2002	357	1,747	2,547	–	4,651
Depreciation for the year	172	570	882	–	1,624
At 31 March 2003	529	2,317	3,429	–	6,275
Depreciation for the year	172	841	1,205	–	2,218
Disposals	–	(5)	(409)	–	(414)
At 31 March 2004	701	3,153	4,225	–	8,079
Depreciation for the year	243	1,371	1,307	–	2,921
Disposals	–	–	(4,127)	–	(4,127)
At 31 March 2005	944	4,524	1,405	–	6,873
<u>Net book value:</u>					
At 31 March 2003	4,379	29,396	6,521	5,740	46,036
At 31 March 2004	4,207	50,200	8,064	434	62,905
At 31 March 2005	8,617	51,063	3,050	665	63,395

12. SHORT-TERM BORROWINGS

	2005 RMB'000	2004 RMB'000	2003 RMB'000
Bank loans (secured)	84,750	40,570	34,100
Bills payable to banks (secured)	104,300	70,000	–
	<u>189,050</u>	<u>110,570</u>	<u>34,100</u>

All the short-term borrowings are interest bearing. The secured bank loans are at interest rates varying from 5.3% to 12% (2004: 4.4% to 10.6%; 2003: 4.4% to 10.6%). The above notes payable bear interest from 0.35% to 0.41% per year (2004: 0.4% to 0.5%; 2003: 0.4% to 0.5%).

The bank loans and bills payable are covered by assets pledged by related parties and cash deposits (Note 4) respectively.

13. TRADE PAYABLES AND ACCRUED LIABILITIES

	2005 RMB'000	2004 RMB'000	2003 RMB'000
Outside parties and accrued liabilities	16,461	18,629	9,615
Holding company (Note 3)	–	384	452
Related companies (Note 3)	–	1,255	161
Related parties (Note 4)	4,131	2,062	–
	<u>20,592</u>	<u>22,330</u>	<u>10,228</u>

The average credit period taken to settle payables range from 60 to 90 days in 2005 (2004: 60 to 90 days; 2003: 60 to 90 days).

**APPENDIX 6: REPORT OF THE AUDITORS AND AUDITED FINANCIAL STATEMENTS OF SHANDONG YINGUANG CHEMICAL INDUSTRY CO., LTD. FOR THE YEARS ENDED 31 MARCH 2003, 31 MARCH 2004 AND 31 MARCH 2005**

SHANDONG YINGUANG CHEMICAL INDUSTRY CO., LTD. 山东银光化工股份有限公司

14. OTHER PAYABLES

	<u>2005</u> RMB'000	<u>2004</u> RMB'000	<u>2003</u> RMB'000
Subsidiary (Note 3)	-	350	-
Related parties (Note 4)	4,052	-	-
Outside parties	<u>13,454</u>	<u>12,639</u>	<u>12,402</u>
	<u>17,506</u>	<u>12,989</u>	<u>12,402</u>

The amount due to related party is unsecured, without fixed repayment terms and interest.

15. LONG-TERM BORROWINGS

	<u>2005</u> RMB'000	<u>2004</u> RMB'000	<u>2003</u> RMB'000
Bank loans (secured)	<u>-</u>	<u>23,200</u>	<u>23,200</u>

The borrowings are repayable as follows:

Amounts due within a year:

Bank loans (secured)	<u>-</u>	<u>23,200</u>	<u>-</u>
Total current portion	<u>-</u>	<u>23,200</u>	<u>-</u>
Non-current portion	<u>-</u>	<u>-</u>	<u>23,200</u>

The non-current portion is repayable as follows:

Due within 2 to 5 years	<u>-</u>	<u>-</u>	<u>23,200</u>
-------------------------	----------	----------	---------------

The secured bank loans are at interest rates varying from 6.5% to 6.6% in years 2004 and 2003. The bank loans were secured by the guarantee of a non-related company.

The loans were repayable on fixed maturity dates. They have been fully repaid in year 2005.

16. ISSUED CAPITAL

	<u>2005</u> RMB'000	<u>2004</u> RMB'000	<u>2003</u> RMB'000
Registered and fully paid capital	<u>40,176</u>	<u>40,176</u>	<u>40,176</u>

**APPENDIX 6: REPORT OF THE AUDITORS AND AUDITED FINANCIAL STATEMENTS OF SHANDONG YINGUANG CHEMICAL INDUSTRY CO., LTD. FOR THE YEARS ENDED 31 MARCH 2003, 31 MARCH 2004 AND 31 MARCH 2005**

SHANDONG YINGUANG CHEMICAL INDUSTRY CO., LTD. 山东银光化工股份有限公司

17. RESERVES

	<u>2005</u> RMB'000	<u>2004</u> RMB'000	<u>2003</u> RMB'000
Capital surplus	4,793	4,793	4,793
Statutory reserves	11,597	8,957	7,009
Retained earnings	<u>26,742</u>	<u>23,929</u>	<u>17,663</u>
	<u>43,132</u>	<u>37,679</u>	<u>29,465</u>

The capital surplus represents the excess of the value of assets contribution over required capital contribution.

The statutory reserves are set up as required under the local regulations as follows:

- (i) 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.
- (ii) a staff welfare reserve made at a rate of 5% of net profit after tax. The reserve is to be used for the construction of infrastructure for the general welfare of the staff.

18. REVENUE

	<u>2005</u> RMB'000	<u>2004</u> RMB'000	<u>2003</u> RMB'000
Sale of goods	<u>108,669</u>	<u>101,635</u>	<u>75,195</u>

19. OTHER OPERATING INCOME

	<u>2005</u> RMB'000	<u>2004</u> RMB'000	<u>2003</u> RMB'000
Interest income from related companies	2,884	2,155	336
Interest income from related parties	619	-	-
Interest income from banks	834	208	64
Rental income from related companies	187	320	44
Rental income from related parties	1,383	-	-
Others	<u>720</u>	<u>-</u>	<u>116</u>
	<u>6,627</u>	<u>2,683</u>	<u>560</u>

**APPENDIX 6: REPORT OF THE AUDITORS AND AUDITED FINANCIAL STATEMENTS OF SHANDONG YINGUANG CHEMICAL INDUSTRY CO., LTD. FOR THE YEARS ENDED 31 MARCH 2003, 31 MARCH 2004 AND 31 MARCH 2005**

SHANDONG YINGUANG CHEMICAL INDUSTRY CO., LTD. 山东银光化工股份有限公司

20. OTHER CREDITS / (CHARGES)

	<u>2005</u> RMB'000	<u>2004</u> RMB'000	<u>2003</u> RMB'000
Bad debts written off trade receivables	-	(25)	(28)
Loss on disposal of property, plant and equipment	(125)	(95)	-
Gain/(loss) on disposal of investments	270	-	(431)
Provision for impairment of investment in subsidiaries	-	(226)	(44)
Provision for impairment of trade receivables	-	(1,376)	(533)
Provision for impairment of other receivables	-	-	(676)
Provision for impairment of other receivables (reversal)	-	882	-
Government grants received	10,251	-	-
	<u>10,396</u>	<u>(840)</u>	<u>(1,712)</u>

21. FINANCE COST

	<u>2005</u> RMB'000	<u>2004</u> RMB'000	<u>2003</u> RMB'000
Interest expense to non-related companies	<u>8,682</u>	<u>5,402</u>	<u>3,800</u>

22. PROFIT BEFORE INCOME TAX

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

	<u>2005</u> RMB'000	<u>2004</u> RMB'000	<u>2003</u> RMB'000
Directors' remuneration	89	154	153
Auditors' remuneration	50	181	50
Changes in inventories of finished goods	7,799	(3,560)	(5,131)
Raw materials and consumables used	<u>50,090</u>	<u>62,011</u>	<u>39,342</u>

23. INCOME TAX

	<u>2005</u> RMB'000	<u>2004</u> RMB'000	<u>2003</u> RMB'000
Current income tax expense	<u>12,524</u>	<u>7,552</u>	<u>6,359</u>

The income tax expense varied from the amount of income tax expense determined by applying the standard income tax rate of 33% (2004 : 33% ; 2003 : 33%) to profit before income tax as a result of the following differences:

	<u>2005</u> RMB'000	<u>2004</u> RMB'000	<u>2003</u> RMB'000
Income tax expense at statutory rate	7,523	6,794	5,324
Non-allowable items	<u>5,001</u>	<u>758</u>	<u>1,035</u>
Total income tax expense	<u>12,524</u>	<u>7,552</u>	<u>6,359</u>

**APPENDIX 6: REPORT OF THE AUDITORS AND AUDITED FINANCIAL STATEMENTS OF SHANDONG YINGUANG CHEMICAL INDUSTRY CO., LTD. FOR THE YEARS ENDED 31 MARCH 2003, 31 MARCH 2004 AND 31 MARCH 2005**

SHANDONG YINGUANG CHEMICAL INDUSTRY CO., LTD. 山东银光化工股份有限公司

24. DIVIDENDS

During the year, a final dividend of RMB0.12 (2004: RMB0.12; 2003: RMB0.10) per RMB1.00 capital was paid to the previous shareholders totalling RMB4,821,000 (2004: RMB4,821,000; 2003: RMB4,018,000).

25. STAFF COSTS

	<u>2005</u> RMB'000	<u>2004</u> RMB'000	<u>2003</u> RMB'000
Contributions to defined contribution plans	832	401	1,077
Staff costs including directors	<u>5,134</u>	<u>6,126</u>	<u>5,040</u>
Total staff cost	<u>5,966</u>	<u>6,527</u>	<u>6,117</u>

26. NUMBER OF EMPLOYEES

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Number of employees at end of year (including directors)	<u>6</u>	<u>664</u>	<u>636</u>

The company has no employees other than the directors as at 31 March 2005.

27. CAPITAL COMMITMENTS

	<u>2005</u> RMB'000	<u>2004</u> RMB'000	<u>2003</u> RMB'000
Estimated amounts committed for future capital expenditure but not provided for in the financial statements	<u>-</u>	<u>2,660</u>	<u>2,935</u>

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**APPENDIX 7 : REPORT OF THE AUDITORS AND UNAUDITED  
CONSOLIDATED FINANCIAL STATEMENTS OF FABCHEM CHINA PTE. LTD.  
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2005**

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CONSOLIDATED FINANCIAL STATEMENTS OF FABCHEM CHINA PTE. LTD.  
(Registration No: 200413128G)

**STATEMENT OF DIRECTORS AND FINANCIAL STATEMENTS**

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**APPENDIX 7 : REPORT OF THE AUDITORS AND UNAUDITED  
CONSOLIDATED FINANCIAL STATEMENTS OF FABCHEM CHINA PTE. LTD.  
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2005**

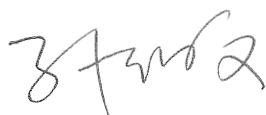
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CONSOLIDATED FINANCIAL STATEMENTS OF FABCHEM CHINA PTE. LTD.  
(Registration No: 200413128G)


STATEMENT OF DIRECTORS

In the opinion of the directors, the accompanying financial statements are drawn up so as to give a true and fair view of the state of affairs of the Company and of the Group as at 30 September 2005, and the results, changes in equity and cash flows of the Group for the financial year then ended and at the date of this statement there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

ON BEHALF OF THE DIRECTORS



.....  
Sun Bowen  
Director



.....  
Bao Hongwei  
Director

21 November 2005

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**APPENDIX 7 : REPORT OF THE AUDITORS AND UNAUDITED  
CONSOLIDATED FINANCIAL STATEMENTS OF FABCHEM CHINA PTE. LTD.  
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2005**

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18 Cross Street  
#08-01, Marsh & McLennan Centre  
Singapore 048423  
Main (65) 6533 7600  
www.ChioLim.com.sg

The Board of Directors  
19 Fishery Port Road  
Singapore 619736

Dear Sirs,

**INDEPENDENT REVIEW REPORT FROM THE AUDITORS IN  
RELATION TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2005**

We have made a review of the accompanying financial statements of Fabchem China Pte. Ltd. for the six-months period ended 30 September 2005. These financial statements are the responsibility of the Company's management. Our responsibility is to issue a report on these financial statements based on our review.

We conducted our review in accordance with Singapore Standards on Review Engagements 2400. This Standard requires that we plan and perform the review to obtain moderate assurance as to whether the financial statements are free of material misstatement. A review is limited primarily to inquiries of company personnel and analytical procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying financial statements are not presented fairly, in all material aspects, in accordance with the Singapore Financial Reporting Standards.

The comparative figures of the financial statements for the 6 months ended 30 September 2004 have neither been audited nor reviewed by us.

Yours faithfully,

A handwritten signature in black ink, appearing to read 'Ng Thiam Soon'.

Chio Lim & Associates  
Certified Public Accountants  
Singapore  
21 November 2005

Ng Thiam Soon  
Partner-in-charge

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*Business Advisors to Growing Businesses*

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**APPENDIX 7 : REPORT OF THE AUDITORS AND UNAUDITED  
CONSOLIDATED FINANCIAL STATEMENTS OF FABCHEM CHINA PTE. LTD.  
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2005**

CONSOLIDATED FINANCIAL STATEMENTS OF FABCHEM CHINA PTE. LTD.  
(Registration No: 200413128G)

**BALANCE SHEETS**

As at 30 September 2005

	<u>Notes</u>	<u>Group</u>		<u>Company</u>	
		<u>Unaudited</u>	<u>Audited</u>	<u>Unaudited</u>	<u>Audited</u>
		<u>30/09/2005</u>	<u>31/03/2005</u>	<u>30/09/2005</u>	<u>31/03/2005</u>
		RMB'000	RMB'000	RMB'000	RMB'000
<b>ASSETS</b>					
<b>Current assets:</b>					
Cash and cash equivalents	4	22,259	682	328	160
Trade receivables	5	48,025	47,644	–	–
Other receivables and prepayments	6	11,296	2,475	2,096	1,000
Inventories	7	14,050	5,211	–	–
<b>Total current assets</b>		<u>95,630</u>	<u>56,012</u>	<u>2,424</u>	<u>1,160</u>
<b>Non-current assets</b>					
Investment in subsidiary	8	–	–	35,266	10,266
Property, plant and equipment	9	5,842	5,752	15	–
<b>Total non-current assets</b>		<u>5,842</u>	<u>5,752</u>	<u>35,281</u>	<u>10,266</u>
<b>Total assets</b>		<u>101,472</u>	<u>61,764</u>	<u>37,705</u>	<u>11,426</u>
<b>LIABILITIES AND EQUITY</b>					
<b>Current liabilities:</b>					
Short-term borrowings	10	20,000	–	–	–
Trade payables and accrued liabilities	11	18,233	18,800	44	30
Other payables	12	4,200	1,583	2,801	1,363
<b>Total current liabilities</b>		<u>42,433</u>	<u>20,383</u>	<u>2,845</u>	<u>1,393</u>
<b>Capital and reserves:</b>					
Issued capital	13	34,687	10,000	34,687	10,000
Reserves	14	24,352	31,381	173	33
<b>Total equity</b>		<u>59,039</u>	<u>41,381</u>	<u>34,860</u>	<u>10,033</u>
<b>Total liabilities and equity</b>		<u>101,472</u>	<u>61,764</u>	<u>37,705</u>	<u>11,426</u>

See accompanying notes to financial statements.

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**APPENDIX 7 : REPORT OF THE AUDITORS AND UNAUDITED  
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CONSOLIDATED FINANCIAL STATEMENTS OF FABCHEM CHINA PTE. LTD.  
(Registration No: 200413128G)

**UNAUDITED CONSOLIDATED INCOME STATEMENT**  
For the period ended 30 September 2005

	<u>Notes</u>	<u>Group</u> <u>01/04/2005</u> <u>to</u> <u>30/09/2005</u> <u>RMB'000</u>
<b>Revenue</b>	15	51,180
Cost of sales		(27,771)
Gross profit		<u>23,409</u>
Other income	16	279
Distribution costs		(2,150)
Administrative expenses		(3,177)
Finance costs	17	(718)
<b>Profit before income tax</b>	18	<u>17,643</u>
Income tax expense	21	-
<b>Net profit for the year</b>		<u><u>17,643</u></u>
Earnings per share (RMB)	22	
- Basic		3.58
- Diluted		<u><u>3.58</u></u>

See accompanying notes to financial statements.

**APPENDIX 7 : REPORT OF THE AUDITORS AND UNAUDITED  
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CONSOLIDATED FINANCIAL STATEMENTS OF FABCHEM CHINA PTE. LTD.  
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**UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
For the period ended 30 September 2005

<u>Group</u>	<u>Issued Capital</u> RMB'000	<u>Statutory Reserves</u> RMB'000	Foreign Exchange Translation <u>Reserve</u> RMB'000	<u>Retained Earnings</u> RMB'000	<u>Total</u> RMB'000
Balance at date of incorporation	10,000	–	–	–	10,000
Net profit for the year	–	–	–	31,301	31,301
Appropriation for the year	–	4,602	–	(4,602)	–
Foreign currency translation difference	–	–	80	–	80
Balance at 1 April 2005	10,000	4,602	80	26,699	41,381
Capitalisation by bonus issue	24,687	–	–	(24,687)	–
Net profit for the period	–	–	–	17,643	17,643
Appropriation for the period	–	1,885	–	(1,885)	–
Foreign currency translation difference	–	–	15	–	15
Balance at 30 September 2005	<u>34,687</u>	<u>6,487</u>	<u>95</u>	<u>17,770</u>	<u>59,039</u>
		(a)	(a)		

(a) Not available for distribution as cash dividends

See accompanying notes to financial statements.

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CONSOLIDATED FINANCIAL STATEMENTS OF FABCHEM CHINA PTE. LTD.  
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**UNAUDITED CONSOLIDATED CASH FLOW STATEMENT**  
For the period ended 30 September 2005

	<u>01/04/2005</u> to <u>30/09/2005</u> RMB'000
<b>Cash flows from operating activities :</b>	
Profit before income tax	17,643
Adjustments for :	
Depreciation expense	447
Interest income	(2)
Interest expense	718
	18,806
Operating profit before working capital changes	18,806
Trade receivables	(381)
Other receivables and prepayments	(8,821)
Inventories	(8,839)
Trade payables and accrued liabilities	(567)
Other payables	2,617
Net cash from operating activities	2,815
<b>Cash flows from investing activities :</b>	
Purchase of property, plant and equipment (Note 9)	(537)
Interest received	2
Net cash used in investing activities	(535)
<b>Cash flows from financing activities :</b>	
Increase in short-term borrowings	20,000
Interest paid	(718)
Net cash from financing activities	19,282
<b>Net effect of exchange rate changes in consolidating foreign currency financial statements</b>	15
<b>Net increase in cash</b>	21,577
Cash at beginning of year	682
<b>Cash at end of year</b>	22,259

See accompanying notes to financial statements.

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## APPENDIX 7 : REPORT OF THE AUDITORS AND UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS OF FABCHEM CHINA PTE. LTD. FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2005

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CONSOLIDATED FINANCIAL STATEMENTS OF FABCHEM CHINA PTE. LTD.  
(Registration No: 200413128G)

### NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS 30 September 2005

#### 1. GENERAL

The company is incorporated in Singapore. The financial statements are presented in Chinese Renminbi (RMB). They are drawn up in accordance with the provisions of the Companies Act, Cap. 50 and the Singapore Financial Reporting Standards. The financial statements were approved and authorised for issue by the board of directors on 21 November 2005.

The company is a subsidiary of Fortsmith Investments Limited, incorporated in Samoa, which is also its ultimate holding company. The principal activities of the company are investment holding and those of the subsidiary are listed in Note 8 to the financial statements.

The registered office is: 7500A Beach Road #11-310 The Plaza Singapore 199591. The company is domiciled in Singapore.

#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**ACCOUNTING CONVENTION** – The financial statements are prepared in accordance with the historical cost convention.

**BASIS OF PRESENTATION** – The consolidation accounting method is used for the consolidated financial statements which include the financial statements for the year ended 31 March 2005 and for the 6 months ended 30 September 2005 of the company and of those companies in which it holds, directly or indirectly through subsidiaries, over 50 percent of the shares and voting rights. The consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances. All significant intragroup balances and transactions, including income, expenses and dividends, are eliminated in full on consolidation. The results of the investees acquired or disposed of during the financial year are consolidated from the respective dates of acquisition or up to the dates of disposal. On disposal the attributable amount of unamortised goodwill is included in the determination of the gain or loss on disposal.

**REVENUE RECOGNITION** – Revenue from sale of goods is recognised when significant risks and rewards of ownership are transferred to the buyer and the amount of revenue and the costs of the transaction (including future costs) can be measured reliably. Revenue from rendering of services that are of short duration is recognised when the services are completed. Interest revenue is recognised on a time-proportion basis using the effective interest rate. Revenue is measured at the fair value of the consideration received or receivable, taking into account the amount of any trade discounts and volume rebates allowed by the entity.

**INVENTORIES** – Inventories are measured at the lower of cost and net realisable value. Costs incurred in bringing each product to its present location and condition are accounted for as follows :

Raw materials – purchase cost on a weighted average basis;

Finished goods and work-in-progress – cost of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

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CONSOLIDATED FINANCIAL STATEMENTS OF FABCHEM CHINA PTE. LTD.  
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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

**SUBSIDIARY** – In the company's own financial statements, the investment in subsidiary is carried at cost less any provision for impairment in value.

**PROPERTY, PLANT AND EQUIPMENT** – Plant and equipment are carried at cost less any accumulated depreciation and any accumulated impairment losses. Depreciation is provided on gross carrying amounts, after deducting residual value, in equal annual instalments over the estimated useful lives of the assets. The annual rates of depreciation are as follow:

Properties and improvements	–	4.8%
Plant and equipment	–	9.5% to 19%

Fully depreciated assets still in use are retained in the financial statements.

The residual value and the useful life of an asset are reviewed at least at each financial year end and, if expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate.

**IMPAIRMENT OF ASSETS** – At each reporting date an assessment is made whether there is any indication that a depreciable or amortisable asset may be impaired. If any such indication exists, an estimate is made of the recoverable amount of the asset. A provision is made for the excess of the carrying amount over the recoverable amount. The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use.

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

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

**BORROWING COSTS** – All borrowing costs are recognised as an expense in the period in which they are incurred.

**INCOME TAX** – The income taxes are accounted using the asset and liability method that requires the recognition of taxes payable or refundable for the current year and deferred tax liabilities and assets for the future tax consequence of events that have been recognised in the financial statement or tax returns. The measurements of current and deferred tax liabilities and assets are based on provisions of the enacted tax laws; the effects of future changes in tax laws or rates are not anticipated. The measurement of deferred tax assets 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 liability is recognised for all taxable temporary differences, unless the deferred tax liability arises from (a) goodwill for which amortisation is not deductible for tax purposes; or (b) the initial recognition of an asset or liability in a transaction which (i) is not a business combination; and (ii) at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

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CONSOLIDATED FINANCIAL STATEMENTS OF FABCHEM CHINA PTE. LTD.  
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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

RETIREMENT BENEFITS COSTS – Contributions to defined contribution retirement benefit plans are recorded as an expense as they fall due. Contributions made to state managed retirement benefit plans are dealt with as defined contribution retirement benefit plans.

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

LIABILITIES AND PROVISIONS – A liability and 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. It is measured at the amount payable.

CASH – Cash for the cash flow statement includes cash and cash equivalents but excludes bank balances which have maturity of more than three months.

FAIR VALUE OF FINANCIAL INSTRUMENTS – The carrying values of cash, accounts receivable, other current financial assets, short-term borrowings, accounts payable and other current financial liabilities approximate their fair values due to the short-term maturity of these instruments. The fair value of long-term debt was not determined as there are no significant items as at the end of the year. Those financial assets and liabilities that have a fixed maturity are measured at amortised cost using the effective interest rate method. Those that do not have a fixed maturity are measured at cost. All financial assets are subject to review for impairment.

CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS AND USE OF JUDGEMENTS

ACCOUNTING ESTIMATES – The preparation of financial statements in conformity with generally accepted accounting principles requires the directors to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

USE OF JUDGEMENTS – Apart from those involving estimations, management has made judgements in the process of applying the entity's accounting policies that have the most significant effect on the amounts recognised in the financial statements.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Trade receivables:

A trade receivable amount is impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset and that loss event has an impact on the estimated future cash flows of the financial asset that can be reliably estimated. A provision on impairment is made based on the credit evaluation of the customers at the time the sale is made and which is updated periodically. Significant change in the factors considered by management could adversely affect the operating results of the Group.

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

Income tax:

Significant judgment is required in determining the worldwide provision for income taxes because the Group is subject to income taxes in numerous jurisdictions. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Property, plant and equipment:

Provision for impairment is tested annually whether property, plant and equipment has suffered any impairment. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates. If the revised estimated gross margin is lower than expected used in the calculations the Group would need to provide for impairment.

RISK MANAGEMENT POLICIES FOR FINANCIAL INSTRUMENTS

CREDIT RISK ON FINANCIAL ASSETS – Financial assets that are potentially subject to concentrations of credit risk consist principally of cash, cash equivalents and trade and other accounts receivable. The directors believe that the financial risks associated with these financial instruments are minimal. The cash and cash equivalents are placed with high credit quality institutions. An ongoing credit evaluation is performed of the debtors' financial condition and a provision for impairment is maintained based upon the expected collectibility of all accounts receivable. There is no significant concentration of credit risk, as the exposure is spread over a large number of counterparties and customers unless otherwise disclosed in the note to the financial statements.

OTHER RISKS ON FINANCIAL INSTRUMENTS – The interest, foreign exchange risks, and changes in fair values from time to time are monitored and any gains and losses are included in the income statement. There is no exposure to interest rate price risk for financial instruments with a fixed interest rate and to interest rate or cash flow risk for financial instruments with a floating interest rate that is reset as market rates change. There is also exposure to changes in foreign exchange rates and liquidity of businesses. Forward contracts or other arrangements are not utilised to minimise these risks and these forward contracts or other arrangements are not used trading or speculative purposes. At 30 September 2005 there were no such arrangements, interest rate swap contracts or other derivative instruments outstanding. The financial assets and liabilities are mainly in Chinese Renminbi.

3. RELATED PARTY TRANSACTIONS

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



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3. RELATED PARTY TRANSACTIONS (Cont'd)

#3.1 Related companies

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

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

Significant related company transactions:

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

	<u>Subsidiary</u> <u>01/04/2005</u> to <u>30/09/2005</u> RMB'000
Dividend income	25,000

#3.2. Other related parties

Other related parties are entities with common direct or indirect shareholders and or directors or management. They include individual persons.

Some of the company's transactions and arrangements are with related parties and the effect of these on the basis determined between the parties are reflected in these financial statements. The balances are without fixed repayment terms and interest unless stated otherwise.

Significant other related party transactions:

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

	<u>Other related parties</u> <u>01/04/2005</u> to <u>30/09/2005</u> RMB'000
Sales	4,483
Rental	1,500
Purchase of inventories	14,451
Distribution expenses	53
Freight charges	1,069
	1,460

(<sup>1</sup>) Included in these amounts are export sales to overseas customers through a related party:

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3. RELATED PARTY TRANSACTIONS (Cont'd)

#3.3. Key management compensation

	<u>01/04/2005</u> to <u>30/09/2005</u> RMB'000
Salaries and other short-term employee benefits	161

#3.4. Other receivables from and other payables to related parties

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

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

	<u>Directors</u> <u>30/09/2005</u> RMB'000	<u>Other related parties</u> <u>30/09/2005</u> RMB'000
<u>Other receivables/(other payables):</u>		
Balance at beginning of period	(555)	-
Amounts paid out during the period	-	7,885
Amounts received during the period	(1,539)	(51)
Balance at beginning of period - debit / (credit)	(2,094)	7,834

	<u>Directors</u> <u>31/03/2005</u> RMB'000	<u>Other related parties</u> <u>31/03/2005</u> RMB'000
<u>Other receivables/(other payables):</u>		
Balance at date of incorporation	-	-
Amounts paid out during the period	-	-
Amounts received during the period	(555)	-
Balance at beginning of period - debit / (credit)	(555)	-

The loans and advances are unsecured, without fixed repayment terms and interests.

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4. CASH AND CASH EQUIVALENTS

	<u>Group</u>		<u>Company</u>	
	<u>30/09/2005</u>	<u>31/03/2005</u>	<u>30/09/2005</u>	<u>31/03/2005</u>
	RMB'000	RMB'000	RMB'000	RMB'000
Not restricted in use	22,259	682	328	160
Analysis of above amount denominated in foreign currency:				
Chinese Renminbi	21,931	522	-	-
Singapore Dollars	328	160	328	160
	<u>22,259</u>	<u>682</u>	<u>328</u>	<u>160</u>

The rate of interest for cash on a interest earning account is 1.0%. The effective interest rate is about 1.0%.

5. TRADE RECEIVABLES

	<u>Group</u>		<u>Company</u>	
	<u>30/09/2005</u>	<u>31/03/2005</u>	<u>30/09/2005</u>	<u>31/03/2005</u>
	RMB'000	RMB'000	RMB'000	RMB'000
Related party (Note 3)	11,721	17,181	-	-
Outside parties	36,304	30,463	-	-
	<u>48,025</u>	<u>47,644</u>	<u>-</u>	<u>-</u>

The average credit period generally taken by customers is about 90 days. A provision for impairment is established when there is objective evidence that management will not be able to collect all amounts due according to the original terms of receivables. The carrying amount of trade receivables approximates to their fair value. Short-duration receivables with no stated interest rate are normally measured at original invoice amount unless the effect of imputing interest would be significant.

Concentration of customers:

Top 1 customer	11,721	17,181	-	-
Top 2 customers	20,009	22,344	-	-
Top 3 customers	<u>23,368</u>	<u>26,283</u>	<u>-</u>	<u>-</u>

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6. OTHER RECEIVABLES AND PREPAYMENTS

	<u>Group</u>		<u>Company</u>	
	<u>30/09/2005</u>	<u>31/03/2005</u>	<u>30/09/2005</u>	<u>31/03/2005</u>
	RMB'000	RMB'000	RMB'000	RMB'000
Related parties	7,885	-	-	-
Loans to business associates <sup>(1)</sup>	-	746	-	-
Advances to suppliers	972	-	-	-
Advances to staff for business purposes <sup>(2)</sup>	308	718	-	-
Deferred expenditure <sup>(3)</sup>	2,096	1,000	2,096	1,000
Prepayment	35	11	-	-
	<u>11,296</u>	<u>2,475</u>	<u>2,096</u>	<u>1,000</u>

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

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

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

7. INVENTORIES

	<u>Group</u>		<u>Company</u>	
	<u>30/09/2005</u>	<u>31/03/2005</u>	<u>30/09/2005</u>	<u>31/03/2005</u>
	RMB'000	RMB'000	RMB'000	RMB'000
At cost:				
Raw materials	9,356	3,339	-	-
Finished goods	4,694	1,872	-	-
	<u>14,050</u>	<u>5,211</u>	<u>-</u>	<u>-</u>

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8. INVESTMENT IN SUBSIDIARY

	<u>Company</u>	
	<u>30/09/2005</u>	<u>31/03/2005</u>
	RMB'000	RMB'000
Unlisted shares, at cost	35,266	10,266
Net book value of subsidiary	59,445	41,614

The book value of the subsidiary is not necessarily indicative of the amounts that would be realised in a current market exchange.

<u>Name of subsidiary, country of incorporation, place of operations and principal activities</u>	<u>Cost in books of the Company</u>		<u>Percentage of equity held by the Company</u>	
	<u>30/09/2005</u>	<u>31/03/2005</u>	<u>30/09/2005</u>	<u>31/03/2005</u>
	RMB'000	RMB'000	%	%
Shandong Yinguang Technology Co., Ltd. People's Republic of China Production and sale of civil explosive products (a)	35,266	10,266	100	100

(a) Audited by Chio Lim & Associates, Singapore for the purpose of presenting the group financial statements.

9. PROPERTY, PLANT AND EQUIPMENT

<u>Group</u>	<u>Properties and improvements</u>	<u>Plant and equipment</u>	<u>Construction-in-progress</u>	<u>Total</u>
	RMB'000	RMB'000	RMB'000	RMB'000
Cost:				
At 1 April 2005	–	6,048	–	6,048
Additions	16	487	34	537
At 30 September 2005	16	6,535	34	6,585
Accumulated depreciation:				
At 1 April 2005	–	296	–	296
Depreciation for the year	–	447	–	447
At 30 September 2005	–	743	–	743
Net book value:				
At 1 April 2005	–	5,752	–	5,752
At 30 September 2005	16	5,792	34	5,842

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9. PROPERTY, PLANT AND EQUIPMENT (Cont'd)

Company

	<u>Properties and improvements</u> RMB'000	<u>Plant and equipment</u> RMB'000	<u>Construction- in-progress</u> RMB'000	<u>Total</u> RMB'000
Cost:				
At 1 April 2005	-	-	-	-
Additions	-	18	-	18
At 30 September 2005	-	18	-	18
Accumulated depreciation:				
At 1 April 2005	-	-	-	-
Depreciation for the year	-	3	-	3
At 30 September 2005	-	3	-	3
Net book value:				
At 1 April 2005	-	-	-	-
At 30 September 2005	-	15	-	15

10. SHORT-TERM BORROWINGS

	<u>Group</u>		<u>Company</u>	
	<u>30/09/2005</u> RMB'000	<u>31/03/2005</u> RMB'000	<u>30/09/2005</u> RMB'000	<u>31/03/2005</u> RMB'000
Bank loans (secured)	20,000	-	-	-

All the short-term borrowings are interest bearing. Secured bank loans are covered by corporate guarantees by a non-related company and are at interest rates varying from 5.58% to 8.37%.

Subsequent to 30 September 2005, the short-term borrowings have been repaid in full.

11. TRADE PAYABLES AND ACCRUED LIABILITIES

	<u>Group</u>		<u>Company</u>	
	<u>30/09/2005</u> RMB'000	<u>31/03/2005</u> RMB'000	<u>30/09/2005</u> RMB'000	<u>31/03/2005</u> RMB'000
Outside parties and accrued liabilities	10,264	30	44	30
Related party (Note 3)	715	12,456	-	-
VAT payables	7,254	6,314	-	-
	<u>18,233</u>	<u>18,800</u>	<u>44</u>	<u>30</u>

The average credit period granted by suppliers is about 60 to 90 days.

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12. OTHER PAYABLES

	<u>Group</u>		<u>Company</u>	
	<u>30/09/2005</u>	<u>31/03/2005</u>	<u>30/09/2005</u>	<u>31/03/2005</u>
	RMB'000	RMB'000	RMB'000	RMB'000
Related parties (Note 3)	2,145	555	2,094	555
Outside parties	2,055	1,028	707	808
	<u>4,200</u>	<u>1,583</u>	<u>2,801</u>	<u>1,363</u>

The amount due to related party is unsecured, without fixed repayment terms and interest.

13. ISSUED CAPITAL

	<u>Group and Company</u>	
	<u>30/09/2005</u>	<u>31/03/2005</u>
	S\$'000	S\$'000
Authorised: 10,000,000 ordinary shares of S\$1 each	<u>10,000</u>	<u>10,000</u>

	<u>Group and Company</u>	
	<u>30/09/2005</u>	<u>31/03/2005</u>
	RMB'000	RMB'000
Issued and fully paid: 7,000,000 (31 March 2005: 2,000,000) ordinary shares of S\$1 each	<u>34,687</u>	<u>10,000</u>

During the period, the company issued 5,000,000 ordinary shares of S\$1 each by capitalisation of S\$5,000,000 dividends received from the subsidiary.

14. RESERVES

	<u>Group</u>		<u>Company</u>	
	<u>30/09/2005</u>	<u>31/03/2005</u>	<u>30/09/2005</u>	<u>31/03/2005</u>
	RMB'000	RMB'000	RMB'000	RMB'000
Foreign currency translation reserves	95	80	95	80
Statutory reserves <sup>(*)</sup>	6,487	4,602	-	-
Retained earnings	17,770	26,699	78	(47)
	<u>24,352</u>	<u>31,381</u>	<u>173</u>	<u>33</u>

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

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15.	REVENUE	<u>Group</u> <u>01/04/2005</u> to <u>30/09/2005</u> RMB'000
	Sale of goods	<u>51,180</u>
16.	OTHER INCOME	<u>Group</u> <u>01/04/2005</u> to <u>30/09/2005</u> RMB'000
	Others	277
	Interest income	2
		<u>279</u>
17.	FINANCE COSTS	<u>Group</u> <u>01/04/2005</u> to <u>30/09/2005</u> RMB'000
	Interest expense to non-related companies	<u>718</u>
18.	PROFIT BEFORE INCOME TAX	
	In addition to the charges and credits disclosed elsewhere in the notes, this item includes the following charges:-	
		<u>Group</u> <u>01/04/2005</u> to <u>30/09/2005</u> RMB'000
	Auditors' remuneration	65
	Directors' remuneration - directors of subsidiary company	28
	Raw materials and consumables used	20,525
	Changes in inventories of finished goods	<u>(2,822)</u>



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19.	STAFF COSTS	<u>Group</u> <u>01/04/2005</u> to <u>30/09/2005</u> RMB'000
	Staff costs including directors	3,863
	Contribution to defined contribution plans	783
	Total staff costs	<u>4,646</u>
20.	NUMBER OF EMPLOYEES	<u>Group</u> <u>01/04/2005</u> to <u>30/09/2005</u>
	Number of employees at end of year (including directors)	<u>706</u>
21.	INCOME TAX	<u>Group</u> <u>01/04/2005</u> to <u>30/09/2005</u> RMB'000
	Current	<u>-</u>
	<p>The income tax expense varied from the amount of income tax expense determined by applying the Singapore income tax rate of 20% to profit before income tax as a result of the following differences:-</p>	
		<u>Group</u> <u>01/04/2005</u> to <u>30/09/2005</u> RMB'000
	Income tax expense at the statutory rate	3,529
	Non-allowable items	38
	Effect of different tax rate in foreign country	2,318
	Tax exemptions	(5,885)
	Total income tax expense	<u>-</u>

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21. INCOME TAX (Cont'd)

A subsidiary of the group is located in the People's Republic of China ("PRC") and subject to PRC tax. Pursuant to the Income Tax Law of the PRC concerning Foreign Investment Enterprises and Foreign Enterprises and various local income tax laws, foreign investment enterprises are subject to the statutory income tax rate of 33% (30% state income tax plus 3% local income tax) unless the enterprises are located in specially designated regions or cities in which more favourable tax rates will apply. The company is located in a region where the tax rate of 33% applies. No income tax expense is incurred for the year as the company is entitled to income tax exemption for the two years commencing from the first profitable year (after deducting losses carried forward) and a 50% reduction for the succeeding three years. Profits have been derived in the company's first year of operation. There is no income tax consequence of dividends to shareholders of the company.

22. EARNINGS PER SHARE

The earnings per share is calculated by dividing the group's profit attributable to shareholders by the number of shares of S\$1 in issue during the year.

The calculation of the earnings per share is based on the following:

	<u>Group</u> <u>01/04/2005</u> to <u>30/09/2005</u> RMB'000
Net profit for the period (RMB'000)	17,643
<u>Number of shares ('000)</u>	
Weighted average number of ordinary shares for the purposes of basic earnings per share	4,923
Earnings per share (RMB)	3.58

There is no dilution of earnings per share as there are no dilutive potential shares outstanding at the year end.

23. OPERATING LEASE COMMITMENTS

At the balance sheet date the commitments in respect of operating leases with a term of more than one year were as follows:

	<u>Group</u> <u>30/09/2005</u> <u>31/03/2005</u> RMB'000              RMB'000	
Within one year	3,000	3,000
Within 2 to 5 years	3,250	4,750
	<u>01/04/2005</u> to <u>30/09/2005</u> RMB'000	<u>Date of</u> <u>incorporation</u> <u>to 31/03/2005</u> RMB'000
Rental expense for the period	1,500	1,250

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23. OPERATING LEASE COMMITMENTS (Cont'd)

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

24. FINANCIAL INFORMATION BY SEGMENTS

Segment reporting policy:

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

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

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

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

The group has one primary segment which is in the sale of civil explosive products.

**Geographical segments**

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

For the 6 months ended 30 September 2005

	<u>Revenue</u> RMB'000	<u>Segment</u> <u>Assets</u> RMB'000	<u>Capital</u> <u>Expenditure</u> RMB'000
Within PRC	29,100	99,033	519
<u>Outside PRC:</u>			
Sales through distributors	3,413	-	-
Australia	17,207	-	-
Singapore	-	2,439	18
Others	1,460	-	-
	<u>51,180</u>	<u>101,472</u>	<u>537</u>

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24. FINANCIAL INFORMATION BY SEGMENTS (Cont'd)

For the year ended 31 March 2005

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

25. COMPARATIVE FIGURES

The company was incorporated on 12 October 2004. The first set of financial statements cover the financial year from 12 October 2004 to 31 March 2005. Therefore no comparative figures for the income statement, statement of changes in equity and cash flow statement for the 6 months ended 30 September 2004.

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## APPENDIX 8: DESCRIPTION OF OUR ORDINARY SHARES

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The following statements are brief summaries of our capital structure and of the more important rights and privileges of our ordinary Shareholders as conferred by the laws of Singapore and our Articles of Association (the “Articles”). These statements summarise the material provisions of our Articles but are qualified in entirety by reference to the Articles.

### Ordinary Shares

There are no founder, management, deferred or unissued shares reserved for issue for any purpose. The rights and privileges of these shares are stated in our Articles.

We have only one class of shares, namely, our ordinary shares. Our Articles provide that we may issue shares of a different class with preferential, deferred, qualified or special rights, privileges or conditions as our Board of Directors may think fit and may issue preferential shares which are, or at our option are, redeemable, subject to certain limitations.

All of the ordinary shares are in registered form. We may, subject to the provisions of the Act and the rules of the SGX-ST, purchase our own ordinary shares. However, we may not, except in circumstances permitted by the Act, grant any financial assistance for the acquisition or proposed acquisition of our own ordinary shares.

### New Ordinary Shares

New ordinary shares may only be issued with the prior approval of our shareholders in a general meeting. The aggregate number of shares to be issued pursuant to a general authority granted by our Shareholders may not exceed 50 per cent. (or such other limit as may be prescribed by the SGX-ST from time to time) of our issued share capital for the time being, of which the aggregate number of shares to be issued other than on a pro-rata basis to our shareholders may not exceed 20 per cent. (or such other limit as may be prescribed by the SGX-ST from time to time) of our issued share capital at the time of the passing of the resolution 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; and (c) any subsequent consolidation or subdivision of shares. The approval, if granted, will lapse at the conclusion of our annual general meeting following the date on which the approval was granted, the expiration of the period within which the next annual general meeting after that date is required by law to be held whichever is earlier or revoked or varied in a general meeting. Subject to the foregoing, the provisions of the Act and any special rights attached to any class of shares currently issued, all new ordinary shares are under the control of our Board of Directors who may allot and issue the same with such rights and restrictions as they may think fit.

### Shareholders

Only persons who are registered on our register of shareholders and, in cases in which the person so registered is the CDP, the persons named as the Depositors in the Depository Register maintained by the CDP for the ordinary shares, are recognised as our Shareholders. We will not, except as required by law, recognise any equitable, contingent, future or partial interests in any ordinary share or other rights for any ordinary share or of the person whose name is entered in the Depository Register for that ordinary share. We may close our register of shareholders for any time or times if we provide the Accounting and Corporate Regulatory Authority with at least 14 days’ notice and the SGX-ST at least 10 clear Market Days’ notice. However, the register may not be closed for more than 30 days in aggregate in any calendar year. We typically close the register to determine our Shareholders’ entitlement to receive dividends and other distributions.

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## APPENDIX 8: DESCRIPTION OF OUR ORDINARY SHARES

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### Transfer of Ordinary Shares

There is no restriction on the transfer of fully paid issued shares except where required by law or the listing rules or by-laws of SGX-ST. Our Board of Directors may decline to accept to register any transfer or ordinary shares which are not fully paid shares or ordinary shares on which we have a lien. Ordinary shares may be transferred by a duly signed instrument of transfer in a form approved by any stock exchange on which our Company is listed. Our Board of Directors may also exercise their discretion to decline to register any instrument of transfer unless, among other things, it has been duly stamped and is presented for registration together with the share certificate and such other evidence of title as they may require. We will replace lost or destroyed certificates of ordinary shares if we are properly notified and the applicant pays a fee which will not exceed S\$2 and furnishes any evidence and indemnity that our Board of Directors may require.

### General Meetings of Shareholders

We are required to hold an annual general meeting every year. Our Board of Directors may convene an extraordinary general meeting whenever it thinks fit and must do so if our Shareholders representing not less than 10.0 per cent. of the total voting rights of all our Shareholders request in writing that such a meeting be held. In addition, two or more of our Shareholders holding not less than 10.0 per cent. of our issued share capital may call for an extraordinary general meeting. Unless otherwise required by law or by our Articles, voting at general meetings is by ordinary resolution, requiring an affirmative vote for a simple majority of the votes cast at that meeting. An ordinary resolution suffices, for example, for the appointment of the directors. A special resolution, requiring the affirmative vote of at least 75.0 per cent. of the votes cast at that meeting, is necessary for certain matters under Singapore law, including voluntary winding up, amendments to our Memorandum of Association and our Articles, a change of our corporate name and a reduction in our share capital, share premium account or capital redemption reserve fund. We must give at least 21 days' notice in writing for every general meeting convened for the purpose of passing a special resolution. Ordinary resolutions generally require 14 days' notice in writing. The notice must be given to each of our Shareholders who have supplied us with an address in Singapore for the giving of notices and must set forth the place, the day and the hour of the meeting and, in the case of special business, the general nature of that business.

### Voting rights

A holder of our ordinary shares is entitled to attend, speak and vote at any general meeting, in person or by proxy. Proxies need not be a Shareholder. A person who holds ordinary shares through the SGX-ST book-entry settlement system will only be entitled to vote at a general meeting as a Shareholder if his name appears on the Depository Register maintained by the CDP 48 hours before the general meeting. Except as otherwise provided in our Articles, two or more Shareholders must be present in person or by proxy to constitute a quorum at any general meeting. Under our Articles, on a show of hands, every Shareholder present in person and by proxy shall have one vote (provided that in the case of a Shareholder who is represented by two proxies, only one of the two proxies as determined by that Shareholder or, failing such determination, by the Chairman of the meeting in his sole discretion shall be entitled to vote on a show of hands), and on a poll, every Shareholder present in person or by proxy shall have one vote for each ordinary share which he holds or represents. A poll may be demanded in certain circumstances including by the Chairman of the meeting or by any Shareholder present in person or by proxy and presenting not less than 10.0 per cent. of the total voting rights of all Shareholders having the right to attend and vote at the meeting or by any two Shareholders present in person or by proxy and entitled to vote. In the case of a tie vote, whether on a show of hands or a poll, the Chairman of the meeting shall be entitled to a casting vote.

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## APPENDIX 8: DESCRIPTION OF OUR ORDINARY SHARES

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### **Dividends**

We may, by ordinary resolution of our Shareholders, declare dividends at a general meeting, but we may not pay dividends in excess of the amount recommended by our Board of Directors. We must pay all dividends out of our profits. All dividends are paid pro-rata amongst our Shareholders in proportion to the amount paid-up on each Shareholder's ordinary shares, unless the rights attaching to an issue of any ordinary share provide otherwise. Unless otherwise directed, dividends are paid by cheque or warrant sent through the post to each Shareholder at his registered address. Notwithstanding the foregoing, the payment by us to CDP of any dividend payable to a Shareholder whose name is entered in the Depository Register shall, to the extent of payment made to CDP, discharge us from any liability to that Shareholder in respect of that payment.

### **Bonus and Rights Issue**

Our Board of Directors may, with the approval of our Shareholders at a general meeting, capitalise any reserves or profits (including profits or monies carried and standing to any reserve) and distribute the same as bonus shares credited as paid-up to our Shareholders in the proportion to their shareholdings. Our Board of Directors may also issue rights to take up additional ordinary shares to other Shareholders in proportion to their shareholdings. Such rights are subject to any conditions attached to such issue and the regulations of any stock exchange on which we are listed.

### **Take-overs**

The Securities and Futures Act and the Singapore Code on Take-overs and Mergers ("Singapore Take-over Code") regulate the acquisition of ordinary shares of public companies and contain certain provisions that may delay, deter or prevent a future takeover or change in control of our Company. Any person acquiring an interest, either on his own or together with parties acting in concert with him, in 30.0 per cent. or more of our voting shares must extend a takeover offer for the remaining voting shares in accordance with the provisions of the Singapore Take-over Code. "Parties acting in concert" includes and is not limited to a company and its directors (including their relatives), a company and its pension funds, a person and any investment company, unit trust or other client in respect of shares held by the financial advisor on a discretionary basis. An offer for consideration other than cash must be accompanied by a cash alternative at not less than the highest price paid by the offeror or the parties acting in concert with the offeror within the preceding 6 months. A mandatory takeover offer is also required to be made if a person holding, either on his own or together with parties acting in concert with him, between 30.0 per cent. and 50.0 per cent. of the voting shares acquires additional voting shares representing more than 1.0 per cent. of the voting shares in any 6-month period.

### **Liquidation or Other Return of Capital**

If we liquidate or in the event of any other return of capital, holders of our ordinary shares will be entitled to participate in any surplus assets in proportion to their shareholdings, subject to any special rights attaching to any other class of shares.

### **Indemnity**

As permitted by Singapore law, our Articles provide that, subject to the Act, our Board of Directors and officers shall be entitled to be indemnified by us against any liability incurred in defending any proceedings, whether civil or criminal, which relate to anything done or omitted to have been done as an officer, director or employee and in which judgement is given in their favour or in which they are acquitted or in connection with any application under any statute for relief from liability in respect thereof in which relief is granted by the court. We may not indemnify our Directors and officers against any liability which by law would otherwise attach to them in respect of any negligence, default, breach of duty or breach of trust of which they may be guilty in relation to us.

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## APPENDIX 8: DESCRIPTION OF OUR ORDINARY SHARES

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### Limitations on Rights to Hold or Vote Shares

Except as described in “Voting Rights” and “Takeovers” above, there are no limitations imposed by Singapore law or by our Articles on the rights of non-resident Shareholders to hold or vote ordinary shares.

### Minority Rights

The rights of minority shareholders of Singapore incorporated companies are protected under Section 216 of the Companies Act, which gives the Singapore courts a general power to make any order, upon application by any of our Shareholders, as they think fit to remedy any of the following situations:-

- our affairs are being conducted or the powers of our Board of Directors are being exercised in a manner oppressive to, or in disregard of the interests of, one or more of the Shareholders; or
- we take an action, or threaten to take an action, or our Shareholders pass a resolution, or propose to pass a resolution, which unfairly discriminates against, or is otherwise prejudicial to one or more of our Shareholders, including the applicant.

Singapore courts have a wide discretion as to the reliefs they may grant and those reliefs are in no way limited to those listed in the Act itself. Without prejudice to the foregoing, Singapore courts may:-

- direct, or prohibit any act or cancel or vary any transaction or resolution; regulate the conduct of our affairs in future;
- authorise civil proceedings to be brought in our name, or on our behalf, by a person or persons and on such terms as the court may direct;
- provide for the purchase of a minority Shareholder’s shares by our other Shareholders or by us and, in the case of a purchase of shares by us, a corresponding reduction of our share capital;
- in the case of a purchase of shares by the company, provide for a reduction accordingly of the company’s capital; or
- provide that we be wound up.