

# FABCHEM CHINA LIMITED

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

## APPENDIX 1 TO THE NOTICE OF ANNUAL GENERAL MEETING OF FABCHEM CHINA LIMITED DATED 14 JULY 2017

This Appendix 1 is circulated to shareholders of Fabchem China Limited (the “Company”) together with the Company’s Annual Report. Its purpose is to provide shareholders with the relevant information relating to, and to seek shareholders’ approval for the renewal of the Shareholders’ Mandate for Dyno Nobel Interested Person Transactions to be tabled at 2 Bukit Merah Central, Level 1 Drucker/Juran Boardroom, Singapore 159835 on 31 July 2017 at 9.30 a.m..

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

The Singapore Exchange Securities Trading Limited (“SGX-ST”) assumes no responsibility for the accuracy of any statement made, opinions expressed or reports contained in this Appendix 1.

**To: The Shareholders of Fabchem China Limited**

### **THE PROPOSED RENEWAL OF THE SHAREHOLDERS’ MANDATE FOR INTERESTED PERSON TRANSACTIONS WITH DYNNOBEL GROUP**

#### **1. INTRODUCTION**

- 1.1. The Proposed Resolution No. 8 in the Notice of the Annual General Meeting (the “AGM”) to be held on 31 July 2017 relates to the renewal of the general mandate to authorise the Company and its subsidiaries (collectively, the “Group”) that are considered to be “entities at risk” within the meaning of Chapter 9 of the Listing Manual, to enter into, in the ordinary course of business, any of the mandated transactions with specified classes of the Company’s interested persons, provided that such transactions are made on normal commercial terms and in accordance with the review procedures for such transactions (the “Dyno Nobel IPT Mandate”).
- 1.2. At an Extraordinary General Meeting of the Company held on 10 November 2011 (the “2011 EGM”), the Shareholders had, *inter alia*, approved the Dyno Nobel IPT Mandate to enable the Group to enter, in the ordinary course of business, into certain specified classes of transactions with certain specified interested persons. The Dyno Nobel IPT Mandate was subsequently renewed at the AGM of the Company for FY2012, FY2013, FY2014, FY2015 and FY2016.
- 1.3. The Dyno Nobel IPT Mandate will expire on the date of the forthcoming AGM. Accordingly, it is proposed that the Dyno Nobel IPT Mandate be renewed at the forthcoming AGM, to take effect until the next AGM of the Company. General information pertaining to Chapter 9 of the Listing Manual is set out in Schedule I of this Appendix 1.

#### **2. DETAILS OF DYNNOBEL IPT MANDATE GRANTED AT THE 2011 EGM**

##### **2.1. Classes of Interested Person**

The Dyno Nobel IPT Mandate to be renewed will apply to the Interested Person Transactions (as specifically described in Section 2.2 (*Nature of Interested Person Transactions*) below) between our Group and Dyno Nobel Asia Pacific Pty Ltd (“DNAP”), DNX Australia Pty Limited (“DNX Australia”) and its associates (collectively, “Dyno Nobel Group” or “Interested Persons”).

DNX Australia has been a controlling shareholder of the Company since 1 February 2007 and holds 13,993,200 shares in the Company representing 29.9% of the Company's issued share capital as at 30 June 2017 (the "Latest Practicable Date"). DNAP is the holding company of DNX Australia and holds 100% of its shares in the capital of DNX Australia. Hence, by reason of the above, DNAP is deemed to have a 29.9% equity interest in the Company.

## **2.2. Nature of Interested Person Transactions**

The Dyno Nobel Group is a supplier of industrial explosives and blasting services to the mining, quarrying, seismic and construction industries. The approval for the Dyno Nobel IPT Mandate obtained at the 2011 EGM applied to sales of boosters, in the ordinary course of business, from Shandong Yinguang Technology Co Ltd ("Yinguang Technology") to DNAP and DNX Australia, and such other sales of other products of the Company which may arise in the future ("Product Sales"). The Dyno Nobel Group has been purchasing our products since FY2011. The interested person transactions covered by the Dyno Nobel IPT Mandate to be renewed relate to all such Product Sales from our Group to the Dyno Nobel Group ("Interested Person Transactions").

Further details of the Interested Person Transactions which were disclosed in the circular of the Company dated 24 October 2011 issued to Shareholders for purposes of the 2011 EGM, have been extracted and reproduced as set out in Schedule II of this Appendix 1 for your ease of reference.

The Dyno Nobel IPT Mandate will not cover any transaction by a company in the Group with the Interested Persons that is below S\$100,000 in value, as the threshold and aggregation requirements contained in Chapter 9 of the Listing Manual would not apply to such a transaction.

Transactions with the Interested Persons which do not fall within the ambit of the Dyno Nobel IPT Mandate shall be subject to the relevant provisions of Chapter 9 of the Listing Manual and/or other applicable provisions of the Listing Manual.

## **3. RATIONALE FOR AND BENEFIT OF THE DYNO NOBEL IPT MANDATE**

### **3.1. Rationale**

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

### **3.2. Benefits**

- (a) The Dyno Nobel IPT Mandate and its subsequent renewal thereafter on an annual basis will enhance the ability of companies in the Group to pursue business opportunities which are time-sensitive in nature, and will eliminate the need for the Company to announce, or to announce and convene separate general meetings on each occasion to seek Shareholders' prior approval for the entry by the relevant company in the Group into such transactions. This will substantially reduce the expenses associated with the convening of the general meetings on an *ad hoc* basis, improve administrative efficacy considerably, and allow major manpower resources and time to be channelled towards attaining other corporate objectives.

- (b) The Dyno Nobel IPT Mandate is to facilitate transactions in the normal course of business of our Group that are transacted from time to time with the Interested Persons, provided that they are carried out on normal commercial terms, are in the interests of our Company and are not prejudicial to the interests of our Company and our minority Shareholders.

#### **4. REVIEW PROCEDURES FOR INTERESTED PERSON TRANSACTIONS**

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

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

#### **4.2 Additional Review Procedures**

- (a) Chapter 9 of the Listing Manual does not require transactions below S\$100,000 in value to be included under the Dyno Nobel IPT Mandate. However, our Audit Committee will review, on a yearly basis, all Interested Person Transactions that have a value below S\$100,000.
- (b) In addition, a threshold limit of RMB15 million for each Interested Person Transaction (the “Threshold Limit”) will be applied. The Threshold Limit has been set and is regarded as reasonable by the Directors of the Company who are deemed to be independent in respect of the Dyno Nobel IPT Mandate, based on (i) the anticipated value of potential Product Sales that the Group may enter into with the Interested Persons going forward and (ii) the review procedures set out above in Section 4.1 and the various approval limits to be implemented for such Product Sales as set out below in this Section 4.2 (*Additional Review Procedures*).

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

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

<b>Approval Limits</b>	<b>Relevant Approving Authority</b>
Transactions of or above S\$100,000 but not exceeding RMB10 million	1 Director and the head of finance (China operations)
Transactions above RMB10 million but not exceeding the Threshold Limit	2 Directors and the head of finance (China operations)
Transactions above the Threshold Limit	Audit Committee

#### **4.3 Interested Person Transaction Register**

Each Product Sale will be properly documented and our Company will maintain a register of all such Interested Person Transactions entered into with the Interested Persons. The head of finance (China operations) will ensure that the Interested Person Transaction Register is properly updated.

#### **4.4 Periodic Review**

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

#### **4.5 Interested Audit Committee Member to Abstain**

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

#### **4.6 Further Compliance**

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

#### **5. VALIDITY PERIOD OF THE IPT MANDATE**

- 5.1** If approved by the Shareholders at this AGM, the Dyno Nobel IPT Mandate will take effect from the date of receipt of the Shareholders' approval, and will (unless revoked or varied by the Company in general meeting) continue in force until the next AGM of the Company and will apply to Interested Person Transactions entered into from the date of receipt of the Shareholders' approval.
- 5.2** Approval from Shareholders will be sought for the renewal of the Dyno Nobel IPT Mandate at each subsequent AGM, subject to review by the Audit Committee of its continued application to the Interested Person Transactions.
- 5.3** In the event that it is determined by the Audit Committee that the review procedures set out in Section 4 (*Review Procedures for Interested Person Transactions*) above have become inappropriate, a fresh mandate from the Shareholders shall be sought.

#### **6. DISCLOSURE TO SHAREHOLDERS**

Pursuant to Chapter 9 of the Listing Manual, our Company will disclose the Dyno Nobel IPT Mandate in our annual report, giving details of the aggregate value of the Interested Person Transactions conducted pursuant to the Dyno Nobel IPT Mandate for the current financial year.

In addition, our Company will announce the aggregate value of the Interested Person Transactions conducted pursuant to the Dyno Nobel IPT Mandate for the financial periods which it is required to report on (pursuant to Rule 705 of the Listing Manual) within the time required for the announcement of such report.

Pursuant to Rules 907 and 920(1) of the Listing Manual, our Company is required to:

- (a) disclose in our Company's annual report the aggregate value of transactions conducted pursuant to the Dyno Nobel IPT Mandate during the current financial year, as well as in the annual reports for the subsequent financial years during which the Dyno Nobel IPT Mandate is in force; and
- (b) announce the aggregate value of transactions conducted pursuant to the Dyno Nobel IPT Mandate for the relevant financial periods which it is required to report.

Our Board will ensure that all disclosures, approvals and other requirements on the mandated transactions, including those required by prevailing legislation, the Listing Manual and accounting standards, are complied with.

#### **7. STATEMENT OF THE AUDIT COMMITTEE**

- 7.1** As at the date of this Appendix 1, the Audit Committee of the Company comprises Wee Phui Gam and Dr. Lim Seck Yeow.
- 7.2** The Audit Committee of the Company has reviewed the terms of the Dyno Nobel IPT Mandate and confirms that:
- (a) the methods or procedures for determining the transaction prices under the Dyno Nobel IPT Mandate have not changed since the last Shareholders' approval; and
  - (b) the methods and procedures referred to in (a) above are sufficient to ensure that the transactions will be carried out on normal commercial terms and will not be prejudicial to the interests of the Company and its minority Shareholders.

7.3 However, should the Audit Committee subsequently no longer be of the opinion or the methods or procedures become inappropriate, the Company will revert to the Shareholders for a fresh mandate based on new guidelines and procedures for transactions with interested persons.

## 8. DIRECTORS' AND SUBSTANTIAL SHAREHOLDERS' INTERESTS

8.1 **Directors' Interests.** The interests of the Directors in the Shares, as at the Latest Practicable Date, are set out below:

Name of Director / Substantial Shareholder	Direct interest		Deemed interest	
	No. of Shares	%	No. of Shares	%
<b>Directors</b>				
Sun Bowen <sup>(1)</sup>	–	–	15,140,000	32.35
Bao Hongwei <sup>(2)</sup>	957,600	2.05	1,720,800	3.68
Dr. Lim Seck Yeow <sup>(3)</sup>	–	–	3,666,800	7.84
Wee Phui Gam	–	–	–	–
Jiang Rongguang	–	–	–	–
Tan Keng Keat	–	–	–	–
<b>Substantial Shareholders</b>				
Fortsmith Investments Limited	15,140,000	32.35	–	–
DNX Australia Pty Limited	13,993,200	29.90	–	–
Fivestar Limited	3,666,800	7.84	–	–
Sun Bowen <sup>(1)</sup>	–	–	15,140,000	32.35
Dr. Lim Seck Yeow <sup>(3)</sup>	–	–	3,666,800	7.84
Tan Geok Bee <sup>(4)</sup>	846,200	1.81	3,666,800	7.84
Bao Hongwei <sup>(2)</sup>	957,600	2.05	1,720,800	3.68

### Notes:

- (1) Mr Sun Bowen is deemed to be interested in the shares held by Fortsmith investments Limited by virtue of Section 7 of the Companies Act.
- (2) Mr Bao Hongwei is deemed to be interested in 1,720,800 shares held by Lombard Inc. by virtue of Section 7 of the Companies Act.
- (3) Dr Lim Seck Yeow is deemed to be interested in the shares held by Fivestar Limited by virtue of Section 7 of the Companies Act.
- (4) Mdm Tan Geok Bee is deemed to be interested in the shares held by Fivestar Limited by virtue of Section 7 of the Companies Act.

Save as disclosed above, the Directors and the substantial Shareholders of the Company do not have any interest, whether direct or indirect, in the Shares.

## 9. ABSTENTIONS FROM VOTING

In accordance with Rule 919, Rule 920(1)(b)(viii) and Rule 921(7) of the Listing Manual, DNAP and DNX Australia, being the Interested Persons, will abstain, and has undertaken to ensure that their associates will abstain, from voting on the resolutions approving the renewal of the Dyno Nobel IPT Mandate herein.

Further, DNAP and DNX Australia undertake to decline, and shall ensure that their associates shall decline, to accept appointment as proxies to vote and attend at the forthcoming AGM in respect of the resolution relating to the renewal Dyno Nobel IPT Mandate for other Shareholders unless the Shareholder concerned shall have given specific instructions as to the manner in which his votes are to be cast at the AGM.

**10. DIRECTORS' RECOMMENDATION**

The Directors of the Company who are considered independent for the purposes of the renewal of the Dyno Nobel IPT Mandate are Dr. Lim Seck Yeow, Sun Bowen, Bao Hongwei, Wee Phui Gam, Jiang Rongguang and Tan Keng Keat. They are of the opinion that the renewal of the Dyno Nobel IPT Mandate is in the best interests of the Company. Accordingly, they recommend that Shareholders vote in favour of Resolution 8 relating to the renewal of the Dyno Nobel IPT Mandate at the AGM.

**11. DIRECTORS' RESPONSIBILITY STATEMENT**

The Directors collectively and individually accept full responsibility for the accuracy of the information given in this Appendix 1 and confirm after making all reasonable enquiries that, to the best of their knowledge and belief, this Appendix 1 constitutes full and true disclosure of all material facts about the renewal of the Dyno Nobel IPT Mandate, the Company and its subsidiaries, and the Directors are not aware of any facts the omission of which would make any statement in this Appendix 1 misleading. Where information in this Appendix 1 has been extracted from published or otherwise publicly available sources or obtained from a named source, the sole responsibility of the Directors has been to ensure that such information has been accurately and correctly extracted from those sources and/or reproduced in the circular in its proper form and context.

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## SCHEDULE I to Appendix 1

### GENERAL INFORMATION RELATING TO CHAPTER 9 OF THE SGX-ST LISTING MANUAL

1. The rules of the Singapore Exchange Securities Trading Limited (“SGX-ST”) governing transactions between a listed company, as well as transactions by its subsidiaries and associated companies that are considered to be “at risk”, with the listed company’s interested persons, are contained in Chapter 9 of the Listing Manual of the SGX-ST.
2. Except for any transaction which is below S\$100,000 in value and certain transactions which, by reason of the nature of such transactions, are not considered to put the listed company at risk to its interested person, and hence, are excluded from the ambit of Chapter 9 of the Listing Manual, when this Chapter applies to a transaction with a listed company’s interested person and the value of the transaction alone or on aggregation with other transactions conducted with the same interested person during the financial year reaches or exceeds certain materiality thresholds (which are based on the listed company’s latest audited consolidated net tangible assets (“NTA”)), the listed company is required to make an immediate announcement, or to make an immediate announcement and seek its shareholders’ approval for the transaction. In particular, shareholders’ approval is required for an interested person transaction of a value equal to, or exceeding:
  - (a) 5% of the listed company’s latest audited consolidated NTA (Note); or
  - (b) 5% of the listed company’s latest audited consolidated NTA, when aggregated with the values of all other transactions entered into with the same interested person (as such term is construed under Chapter 9 of the Listing Manual) during the same financial year. However, a transaction which has been approved by shareholders, or is the subject of aggregation with another transaction that has been approved by shareholders, need not be included in any subsequent aggregation.

*(Note: Based on the audited consolidated accounts of Fabchem China Limited (the “Company”) and its subsidiary (together with the Company, collectively, the “Group”) for the financial year ended 31 March 2017, the NTA of the Group was approximately RMB 369.2 million. Accordingly, in relation to the Company, for the purpose of Chapter 9 of the Listing Manual, 5% of the Company’s latest consolidated NTA would be approximately RMB 18.5 million.)*
3. Chapter 9 of the Listing Manual allows a listed company to seek a mandate from its shareholders for recurrent transactions of a revenue or trading nature or those necessary for its day-to-day operations such as the purchase and sale of supplies and materials (but not for the purchase or sale of assets, undertakings or businesses) which may be carried out with the listed company’s interested persons. Chapter 9 also requires a general mandate to be subject to annual renewal.
4. For the purposes of Chapter 9 of the Listing Manual:
  - (i) an “**entity at risk**” means:
    - (a) the listed company;
    - (b) a subsidiary of the listed company that is not listed on the SGX-ST or an approved exchange; or
    - (c) an associated company of the listed company that is not listed on the SGX-ST or an approved exchange, provided that the listed company and/or its subsidiaries (the “listed group”), or the listed group and its interested person(s), has control over the associated company;

- (ii) an “**interested person**” means a director, chief executive officer or controlling shareholder of the listed company or an associate of such director, chief executive officer or controlling shareholder;
- (iii) an “**associate**” in relation to any director, chief executive officer, substantial shareholder or controlling shareholder, (being an individual), means:
  - (a) his immediate family (that is, his spouse, child, adopted child, step-child, sibling or parent);
  - (b) the trustees of any trust of which he or his immediate family is a beneficiary, or in the case of a discretionary trust, is a discretionary object; and
  - (c) any company in which he and his immediate family together (directly or indirectly) have an interest of 30% or more,
- (iv) an “**associate**” in relation to a substantial shareholder or a controlling shareholder (being a company), means any other company which is its subsidiary or holding company or is a subsidiary of such holding company or one in the equity of which it and/or such other company or companies taken together (directly or indirectly) have an interest of 30% or more;
- (v) an “**approved exchange**” means a stock exchange that has rules which safeguard the interests of shareholders against interested person transactions according to similar principles as Chapter 9;
- (vi) an “**interested person transaction**” means a transaction between an entity at risk and an interested person;
- (vii) a “**transaction**” includes the provision or receipt of financial assistance; the acquisition, disposal or leasing of assets; the provision or receipt of services; the issuance or subscription of securities; the granting of or being granted options; and the establishment of joint ventures or joint investments, whether or not in the ordinary course of business, and whether or not entered into directly or indirectly (for example, through one or more interposed entities); and
- (viii) “**financial assistance**” includes the lending or borrowing of money, the guaranteeing or providing security for a debt incurred or the indemnifying of a guarantor for guaranteeing or providing security; and the forgiving of a debt, the releasing of or neglect in enforcing an obligation or another, or the assuming of the obligations of another.

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## SCHEDULE II to Appendix 1

### EXTRACT OF DETAILS OF THE INTERESTED PERSON TRANSACTIONS

*(All defined terms used herein shall have the meaning ascribed to them in the Circular of the Company dated 24 October 2011 issued to Shareholders for purposes of the 2011 EGM)*

#### THE PROPOSED IPT MANDATE

##### Introduction

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

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

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

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

##### Class of Interested Persons

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

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

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

The Dyno Nobel Group started purchasing Products from the Group in FY2011. The Dyno Nobel Group had intended to purchase Products from the Group earlier but was precluded from doing so due to the exclusive distributorship agreement signed in 2005 between Yinguang Technology and one of the latter’s customers, Beston Australia Pty. Ltd.. The exclusive distributorship agreement expired on 31 December 2009. In FY2011, total purchases of Products by the Dyno Nobel Group from the Group amounted to approximately RMB4.2 million (representing approximately 1.0% of the Group’s total revenue for FY2011 and approximately 1.1% of the latest audited NTA of the Group for FY2011) and such purchases have

increased to approximately RMB13.3 million in the current FY2012 (from 1 April 2011 to the Latest Practicable Date). The value of such purchases from 1 April 2011 to 30 June 2011 was approximately RMB12.4 million representing approximately 9.0% of the Group's total revenue in the same quarter and approximately 3.3% of the latest audited NTA of the Group for FY2011. The IPT Mandate is therefore being proposed in anticipation of further Product Sales to the Dyno Nobel Group.

#### **Nature and Scope of the IPT Mandate**

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

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

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

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