

FABCHEM CHINA LIMITED

USE OF PROCEEDS FROM INITIAL PUBLIC OFFERING (THE "IPO") OF 59,000,000 NEW ORDINARY SHARES OF S\$0.32 EACH IN THE CAPITAL OF FABCHEM CHINA LIMITED (THE "COMPANY")

1. Introduction

The Board of Directors of the Company refers to the "Use of Proceeds from the Invitation and Expenses Incurred" and "Future Plans" sections of the Company's prospectus dated 5 April 2006 and the IPO which was completed on 17 April 2006. The Board wishes to announce that the Company, has via its wholly owned subsidiary Shandong Yinguang Technology Co., Ltd. ("Purchaser") entered into a sale and purchase agreement with Feixian Yilong Shuini Co., Ltd. (费县沂龙水泥有限责任公司) ("Vendor") on 22 May 2006 for the acquisition of manufacturing facilities for the production of our new product, seismic charges to enhance our competitiveness and to meet the preferences and requirements of our customers and the market ("Proposed Acquisitions").

The manufacturing facilities are located in Shandong Province, Zaozhuang City of the People's Republic of China ("PRC"), with a built up area of approximately 8,551 square metres. The manufacturing capacity of the plant and equipments acquired is estimated to produce 3,000 tonnes per annum of seismic charges, or approximately RMB 30.5 million of revenue per annum.

Through our product and process development with Changsha Mining Research Institute (长沙矿山研究院), we developed a high resolution ratio, high power, water-resistance seismic charge. A seismic charge is a type of blasting device used mainly for oil, natural gas and mineral exploration through 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 Earth is generated through the vibration of 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.

Based on the results of our potential customers' trial usage of our seismic charge and our discussions with them, we believe that there will be considerable demand for our new product, seismic charges. As at the date of this announcement, we have unfulfilled signed contracts for seismic charges amounting to approximately RMB 9.9 million. Our customers for seismic charges include CNPC Bureau of Geophysical Prospecting (中国石油集团东方地球物理勘探有限责任公司) ("BGP"), a subsidiary of China National Petroleum Corporation (中国石油天然气集团公司) ("CNPC"), is the biggest company that provides geographical exploration services in the PRC.

2. Valuation and Consideration

Shandong Dayu Certified Public Accountant Office (山东大宇会计事务所) ("Shandong Dayu") has been appointed as an independent valuer to conduct the valuation of the purchase consideration. According to the valuation report dated 20 May 2006, the purchase consideration was valued to be RMB 12,241,535.65, which is approximately S\$2,421,375.75 based on the exchange rate of RMB 1 = RMB S\$0.1978 as of 22 May 2006. The purchase consideration was determined by Shandong Dayu in accordance with the accounting standards and legal requirements of the PRC.

The entire purchase consideration is funded through the net IPO proceeds.

3. Material Conditions

The purchase consideration shall be payable in full by the Purchaser within 60 days from the date of the sale and purchase agreement. Upon the satisfaction of the purchase consideration, all rights and ownership of the plant and equipments of the manufacturing facilities shall be transferred to the Purchaser free from any encumbrances.

4. Financial Effects of the Proposed Acquisition

The Proposed Acquisitions will not have any material effect on the net tangible assets per share or the earnings per share of the Company with reference to the Group's financial position for the financial year ended 31 March 2005.

The estimated increase in revenue accruing from this acquisition is expected to have a positive impact on the revenue of the Group for the financial year ending 31 March 2007.

5. Relative Figures Computed on the basis set out in Rule 1006

In addition, the relative figures for the proposed acquisition computed on the bases set out in Rule 1006 of the Listing Manual are as follows:-

- (a) Net asset value of assets to be disposed of compared with group's net asset value (the "Assets Test")

The Assets Test is not applicable to the Proposed Acquisitions.

- (b) Net profits attributable to the assets acquired compared with the group's net profits (the "Profits Test")

The Profits Test is not applicable to the Proposed Acquisitions.

- (c) Aggregate value of consideration given compared with the Company's market capitalisation (the "Consideration Test")

Based on the Company's market capitalisation as at 19 May 2006 (the market day preceding the date of the sale and purchase agreement) of approximately 153.27 million, the ratio of the Consideration Test is approximately 1.6%.

- (d) Number of equity securities issued by the Company as consideration for the Proposed Acquisition compared with the number of equity securities of the Company previously in issue (the "Equity Securities Test")

The Equity Securities Test is not applicable to the Proposed Acquisitions.

6. Service Contract

No person is proposed to be appointed as a director of the Company in connection with the Proposed Acquisitions. Accordingly no service contract is proposed to be entered into between the Company and any such person.

7. Interest in the Proposed Acquisitions

None of the Directors or the controlling shareholders of the Company has any direct or indirect interest in the Proposed Acquisitions.

8. Documents for Inspection

The sale and purchase agreement dated 22 May 2006 together with the valuation report dated 20 May 2006 will be made available for inspection by the shareholders of the Company during the normal business hours at the Company's registered office for a period of 3 months from the date of this Announcement.

The initial public offering for the shares of Fabchem China Limited was sponsored by HL BANK (the "Manager"). The Manager assumes no responsibility for the contents of this announcement.

BY ORDER OF THE BOARD

Dr Lim Seck Yeow
Non Executive Chairman
30 May 2006