

FABCHEM CHINA LIMITED

(Company registration No.:200413128G)

THE PROPOSED ACQUISITION OF THE PROPERTY (AS DEFINED BELOW) FROM SHANDONG YINGUANG CHEMICAL INDUSTRY CO., LTD BY FABCHEM CHINA LIMITED THROUGH ITS WHOLLY-OWNED SUBSIDIARY SHANDONG YINGUANG TECHNOLOGY CO., LTD. (THE "PROPOSED ACQUISITION")

1. THE INTRODUCTION

The Board of Directors (the "**Directors**") of Fabchem China Limited (the "**Company**") wishes to announce that the Company's wholly-owned subsidiary Shandong Yinguang Technology Co., Ltd. (the "**Purchaser**") has on 26 April 2011 entered into a property transfer agreement (the "**Agreement**") with Shandong Yinguang Chemical Industry Co., Ltd (the "**Vendor**") pursuant to which the Purchaser proposes to acquire the Property (as defined in Section 2 below) for the Consideration (as defined in Section 2 below).

2. DETAILS RELATING TO THE PROPOSED ACQUISITION

2.1 (i) Sale and purchase of the Property

The Purchaser presently leases from the Vendor the land and buildings located at Fei County, Linyi City, Shandong Province in the PRC where the Company's manufacturing facilities and warehouses are located ("**Lease**"). The Lease has been in subsistence since 16 November 2004 and the current annual rental amounts to RMB 8 million.

In 2007, the Purchaser was granted the option (the "**Option**") to acquire the land use rights with a total land area of 439,036.06 square metres and buildings with a total build-in area of 21,040.68 square metres together with all ancillary structures, fixtures and fittings (the "**Property**") from the Vendor for a total purchase price of RMB 108.7 million (the "**Consideration**").

The Purchaser has decided to exercise the Option to purchase the Property.

The Consideration was arrived at on a willing buyer-willing seller basis and determined based on the Vendor's costs of investments for the Property.

(ii) Payment of Consideration

The Consideration for the Proposed Acquisition will be satisfied in the following manner:

- (a) RMB 38.7 million of the Consideration payable for the Property will be satisfied by means of cash payment using internally generated funds in six tranches as follows:
- i. RMB 1 million within 7 business days after signing the Agreement; if approval from shareholders of the Company for the Proposed Acquisition (the “**Shareholders**”) at an extraordinary general meeting (the “**EGM**”) is not obtained for any reason whatsoever, the Agreement shall automatically terminate and the aforesaid RMB 1 million paid by the Purchaser shall be refunded in full plus interests (equivalent to the then prevailing loan interest rate of the People’s Bank of China) within 30 days after the date of the EGM or such later date as parties may agree in writing. In this event, the Vendor shall also bear all the costs incurred by the Purchaser for the Proposed Acquisition;
 - ii. RMB 9 million after obtaining approval from the Shareholders at the EGM (the “**Approval**”);
 - iii. RMB 5 million after six (6) months from the date of the Approval;
 - iv. RMB 10 million after twelve (12) months from the date of the Approval;
 - v. RMB 5 million after twenty-four (24) months from the date of the Approval;
 - vi. the balance of RMB 8.7 million after the date on which all the relevant ownership titles of the Property have been legally and validly transferred to or obtained by the Purchaser.

Notwithstanding the above milestones, provided that the Purchaser has validly and legally obtained all the relevant ownership titles of the Property before the end of twenty-four (24) months after the date of the Approval, the Purchaser shall pay the RMB 38.7 million of the Consideration less amounts which have already been paid, to the Vendor within one (1) month after the date of obtaining all the relevant ownership titles of the Property.

- (b) The Purchaser will apply for bank loans of RMB 70 million in aggregate (collectively “**Bank Loan**”) to be secured by the Property that will be transferred from the Vendor and shall pay to the Vendor the said RMB 70 million as and when the Bank Loan is received. The Vendor agrees that the Purchaser will only be liable to pay to the Vendor the RMB 70 million of the Consideration upon the Purchaser receiving the proceeds of the Bank Loan. The Purchaser shall apply for the said Bank Loan as soon as practicably and reasonably possible after the obtaining all ownership titles of the Property and becoming the legal and valid owner of the Property. The Vendor has agreed that there is no deadline by which the said loan must be procured by the Purchaser and that no interest will be imposed on the deferred payment of the said RMB 70 million.

In the event that the Purchaser is unable to obtain the Bank Loan for the full amount of RMB 70 million, the Vendor agrees that the Purchaser shall pay the shortfall amount of the Bank Loan as follows:

<i>Amount of shortfall of the Bank Loan</i>	<i>Time of shortfall payment (from date of disbursement of last Bank Loan obtained)</i>
Shortfall less than RMB 10 million	Within 24 months
Shortfall between RMB 10 million and RMB 30 million	Within 48 months
Shortfall between RMB 30 million and RMB 50 million	Within 72 months
Shortfall between RMB 50 million and RMB 70 million	Within 96 months

The above deferred instalment payment is to ensure that the Purchaser's cashflow will not be over-stretched if they are unable to obtain the full RMB 70 million loan for any reason.

Immediately after the signing of the Agreement, the Vendor shall repay all existing bank loans secured by the Property or any part thereof at its own cost and expense and discharge all mortgages created on the Property so as to allow the Property to be transferred to the Purchaser free from any and all encumbrances.

(iii) Other Material Terms and Conditions

- (a) If any of the relevant ownership titles of the Property cannot be transferred to or obtained by the Purchaser for any reason whatsoever on or before 30 June 2013 or such other date as the parties to the Agreement may mutually agree in writing ("**Completion Date**"), the Agreement shall automatically terminate and all the Consideration paid by the Purchaser as described in 2.1(a) and 2.1(b) above shall be refunded in full plus interests (equivalent to the then prevailing loan interest rate of the People's Bank of China) within 30 days after the Completion Date. The Vendor shall also bear all the losses and costs incurred by the Purchaser for the Proposed Acquisition.
- (b) The parties agree that the rental payable under the Lease shall be payable up until and including one calendar month prior to the calendar month in which the EGM will be held to obtain the Approval and shall not be payable thereafter. The parties agree that the Lease in respect of the Property shall cease on Completion Date. However, in the event that all the relevant ownership titles of the Property cannot be transferred to or obtained by the Purchaser for any reason whatsoever on or before the Completion Date, the back-pay rental payable under the Lease of the Property between the

Vendor and the Purchaser shall be computed from the calendar month in which the EGM was held and payable by the Purchaser to the Vendor without interest within 30 days after the Completion Date, and the Purchaser shall continue with the current lease arrangement with the Vendor in respect of the Property under the Lease. The Purchaser has the right to set off such payment of rental in part or in full against the refund of the Consideration under sub-paragraph (a) above at its sole discretion.

- (c) The Vendor and Purchaser shall commence application for the ownership alteration registration of the Property (including but not limited to procuring the issuance of the relevant building ownership certificates which have not been obtained prior to the date of the Agreement) with the relevant land and building authorities upon execution of this Agreement.
- (d) The Vendor has agreed to indemnify, defend and hold harmless the Purchaser, its successors, or assignees, from and against (i) any and all losses, damages, penalties, claims, suits or proceedings relating thereto and other costs and expenses, and (ii) any increase in liability or any depletion or diminution of the Property, relating to, resulting directly or indirectly from or arising out of any inaccuracy or breach of any representation or warranty or obligation or undertakings or covenants of the Vendor contained in the Agreement, including but not limited to the Vendor not being in possession of any relevant building ownership certificates.

2.2 Conditions precedent and Completion of Proposed Acquisition

- (a) The obligations of the parties relating to the Proposed Acquisition will be subject to the fulfilment of, *inter alia*, the following conditions precedent:
 - a. each party has obtained the requisite written approval from its board of directors or shareholder(s) for the execution and the completion of the Proposed Acquisition, including but not limited to the approval of the independent shareholders of the Company at a general meeting to be convened;
 - b. approvals, consents and registration in relation to the Proposed Acquisition as may be necessary from any third party, governmental or regulatory body or relevant competent authority having jurisdiction over the transactions contemplated under the Agreement or to the entry into and completion of the Agreement by the parties have been granted, obtained or completed and remain in full force and effect and not having been withdrawn, suspended, amended or revoked, and if such consents or approvals are granted or obtained subject to any conditions, such conditions are reasonably acceptable to the Purchaser;
 - c. all ownership titles to the Property being transferred to or obtained by the Purchaser (including but not limited to procuring the issuance of the relevant building ownership certificates which have not been obtained prior to the date of the Agreement);

- d. the execution and performance of the Agreement by the parties are not prohibited, restricted, curtailed, hindered, impaired or otherwise adversely affected by any contractual obligation vis-à-vis third parties, any relevant statute, order, rule, directive or regulation promulgated by any legislative, executive or regulatory body or authority;
 - e. the necessary consents or releases have been obtained in terms acceptable to the Purchaser from the relevant financial institutions and other third parties, as evidenced by written confirmation, in relation to mortgages, charges or other borrowing arrangements of the Vendor in respect of the Property;
 - f. completion of the legal, financial and operational due diligence conducted by the Purchaser and its advisors in respect of the Property and the Purchaser being satisfied with the outcome of such due diligence at its sole discretion.
- (b) If any condition precedent cannot be fulfilled for any reason, excluding such condition precedent which is exempted in writing by the Purchaser, the Purchaser shall be entitled to terminate the Agreement and the Vendor shall immediately return the Consideration that the Purchaser has paid in accordance with the Agreement in full plus interests (equivalent to the then prevailing loan interest rate of the People's Bank of China) within 30 days after the date the Purchaser notifies the Vendor in writing of the termination of the Agreement.

2.3 Valuation Summary of the Property

The Company had commissioned Shanghai Yinxin Huiye Appraisal Co., Ltd. ("**Valuer**") to undertake an independent valuation on the Property to provide to the independent shareholders of the Company. The relevant valuation report will be issued in due course and its summary will be set out in the circular to Shareholders.

The Valuer is a specialized valuation company approved by the State-owned Assets Supervision and Administration Commission of China. The Valuer is granted the Securities and Futures Business Assessment Certificate by the China Ministry of Finance and China Securities Regulatory Commission, and is qualified to undertake all kinds of valuation services in the PRC, including providing listed companies with valuation services.

3. RELEVANT RULES OF THE LISTING MANUAL

3.1 Chapter 9 of the Listing Manual

An executive officer of the Company, Sun Qiang has a 54.3% interest in Shandong Yinsheng Investments Co., Ltd (“**Yinsheng Investments**”). Sun Qiang is the son of the Managing Director and controlling shareholder of the Company, Sun Bowen. The remaining 45.7% equity interest in Yinsheng Investments is held by third parties who are not related to the Directors and controlling shareholders of the Company.

Yinsheng Investments in turn has a 61.24% equity interest in the Vendor. Some Directors and executive officers of the Company also hold aggregate equity interests of 0.73% in the Vendor as detailed in the table below. In addition, approximately 1.70% equity interests of the Vendor are held by employees of the Purchaser. The balance 36.33% equity interest in the Vendor are held by other third party PRC individuals (“**Unrelated Third Party Individuals**”) who are not related to the Directors and controlling shareholders of the Company.

Shareholders of the Vendor	No. of shares	Percentage of shareholdings (%)
Yinsheng Investments (54.3% held by Sun Qiang)	24,605,452	61.24
<i>Directors of the Company</i>		
Sun Bowen	220,000	0.55
Bao Hongwei	50,000	0.12
<i>Executive officers of the Company</i>		
Chen Hongyu	18,000	0.04
Yang Xingdong	6,250	0.02
Employees of Yinguang Technology	682,500	1.70
Unrelated Third Party Individuals	14,594,078	36.33
Total	40,176,280	100.00

Due to the interests of Sun Qiang in the Vendor and as he is an Associate of Sun Bowen, the Vendor is accordingly deemed to be an Associate of Sun Bowen and an “interested person”, and the Proposed Acquisition would thus constitute an Interested Person Transaction within the meaning of Chapter 9 of the Singapore Exchange Securities Trading Limited (“**SGX-ST**”) Listing Manual (“**Listing Manual**”).

The aggregate value of the Proposed Acquisition is RMB108.7 million and represents approximately 31.1% of the latest audited consolidated net tangible assets (“**NTA**”) of RMB 349.1 million for the Company and its subsidiaries (the “**Group**”) as at the financial year ended 31 March 2010. As the value of the Proposed Acquisition is more than 5% of the latest audited consolidated NTA of the Group, for the purpose of Chapter 9 of the Listing Manual, independent Shareholders’ approval is required for the Proposed Acquisition.

3.2 Chapter 10 of the Listing Manual

The relative figures for the Proposed Acquisition computed on the bases set out in Rule 1006 of the SGX-ST Listing Manual, are as follows:-

Rule 1006(a)

The net asset value of the assets to be disposed of compared with the Group's ⁽ⁱ⁾ net asset value: *Not applicable*

Rule 1006(b)

The net profits⁽ⁱⁱ⁾ attributable to the assets acquired or disposed of compared with the Group's net profits⁽ⁱⁱⁱ⁾: *Not applicable⁽ⁱⁱⁱ⁾*

Rule 1006(c)

The aggregate value of the consideration given or received compared with the issuer's market capitalisation on 25 April 2011, being the market day preceding the date of the Agreement. *46.5%*

Rule 1006(d)

The number of equity securities issued by the issuer as consideration for an acquisition, compared with the number of equity securities previously in issue. *Not applicable*

Notes:

- (i) For the purposes of this Clause 2.2 (Application of Rule 1006 of the Listing Manual), "Group" means the Company and its subsidiaries.
- (ii) Under Rule 1002(3)(b), "net profits" means profit or loss before income tax, minority interests and extraordinary items.
- (iii) The Property to be acquired comprises land and buildings where the Group's manufacturing facilities and warehouses in Fei County, Linyi City, Shandong are located.

Since the relative figures for Rule 1006(c) exceed 20% in respect of the Proposed Acquisition, the Proposed Acquisition is regarded as a major transaction pursuant to Rule 1013 of the Listing Manual. Accordingly, the Proposed Acquisition is conditional upon the approval of the Shareholders in a general meeting.

4. RATIONALE FOR THE PROPOSED ACQUISITION

The Company is of the view that the Proposed Acquisition will be beneficial to the Group for the following reasons:

The Property will provide a permanent operation base for the Group

The Proposed Acquisition would allow the Group to secure a permanent base for its operations in Fei County, Linyi City, Shandong which is essential for its future expansion and growth. All the relevant facilities required for the Group's current operations are located within the Property. The Proposed Acquisition would also boost the asset base of the Group, thereby enhancing the credibility and financial position of the Group from the perspective of its customers and business partners in the PRC.

Existing factory facilities are suited for specialised manufacturing operations

Buildings with specialised features and alterations are required for commercial explosives production and sufficient space and land is required, which are not readily available as compared to normal production facilities. Therefore, it is beneficial for the Group to acquire the current buildings and land which the Group has been occupying since 2004 and which meet the Group's manufacturing requirements and needs, instead of having to be subject to the various risks and costs of relocation.

Commercial explosives manufacturing also requires a safety distance between operations. The Property has the adequate land space to accommodate such requirements of our specialised manufacturing operations. Furthermore, the Property has sufficient land area for further growth in production capacity when the need arises.

The Proposed Acquisition, if materialized, would shelter the Group from unexpected increase of rental expenses in the future

With the prevalent increase of property prices in the PRC, the Directors believe that the Proposed Acquisition at the current juncture can negate future rental increment due to higher property prices, as this will have a direct impact to the Group's profitability.

5. FINANCIAL EFFECTS OF THE PROPOSED ACQUISITION

5.1 The financial effects of the Proposed Acquisition,

- (i) on the net tangible assets (“**NTA**”) per share of the Group for the most recently completed financial year (being the twelve months ended 31 March 2010) (“**FY2010**”), assuming the Proposed Acquisition had been effected on 31 March 2010;
- (ii) on the earnings per share (“**EPS**”) of the Group for the most recently completed financial year (being the twelve months ended 31 March 2010), assuming the Proposed Acquisition had been effected on 1 April 2009; and
- (iii) on the gearing of the Group for the most recently completed financial year (being the twelve months ended 31 March 2010), assuming the Proposed Acquisition had been effected on 31 March 2010,

are as follows:

NTA

	Before adjusting for the Proposed Acquisition	After adjusting for the Proposed Acquisition
NTA (RMB'000)	349,101	349,101
NTA per share (RMB cents)	149.19	149.19

EPS

	Before Proposed Acquisition	After Proposed Acquisition
Net profit after tax (RMB '000)	47,213	46,128 ⁽¹⁾
Weighted average number of shares (‘000)	234,000	234,000
Earnings per Share (RMB cents)	20.18	19.71

- ⁽¹⁾ Includes estimated one-off expenses of approximately RMB 0.6 million to be incurred in connection with the Proposed Acquisition.

Gearing

	Before Proposed Acquisition	After Proposed Acquisition
Total Debt ⁽²⁾ (RMB '000)	21,000	91,000
Total Equity (RMB '000)	356,504	356,504
Debt to Equity Ratio	5.9%	25.5%

⁽²⁾ Includes only loans from banks and financial institutions and the proposed RMB70 million loans to finance the purchase of the Property.

6. INTERESTED PERSON TRANSACTIONS FOR FP2011

The current total of all transactions with the particular interested person for the 9 months ended 31 December 2010 ("FP2011") and the current total of all interested person transactions for FP2011, are set out as follows:

Interested Person Transactions for FP2011	Value (RMB'000)	As a percentage of latest audited NTA of the Group as at 31 March 2010 (%)
<i>Sun Bowen and his Associates</i>		
Feixian Yinguang Transport Co., Ltd ⁽¹⁾ (Provision of transportation services)	2,240	0.64
Shandong Yinguang Commercial Explosives Sales and Services Co., Ltd ⁽²⁾ (Sales of commercial explosives products)	1,541	0.44
Shandong Yinguang Chemical Group Co., Ltd ⁽³⁾ (Sales of ammonium nitrate)	6,813	1.95

Notes:

- (1) Feixian Yinguang Transport Co., Ltd is 80% owned by Sun Bowen.
- (2) Shandong Yinguang Commercial Explosives Sales and Services Co., Ltd is 96% owned by Shandong Yinguang Chemical Group Co., Ltd.
- (3) Shandong Yinguang Chemical Group Co., Ltd is 64.9% owned by Sun Bowen. The business of Shandong Yinguang Chemical Group Co., Ltd has been transferred to a newly setup company, Shandong Yinguang Commercial Explosives Co., Ltd., which is wholly-owned by Shandong Yinguang Chemical Group Co., Ltd. The sale of ammonium nitrate to this entity by the Company is carried out under the existing interested person transactions mandate granted to the Company by its independent shareholders.

Interested Person Transactions for FP2011	Value (RMB'000)	As a percentage of latest audited NTA of the Group as at 31 March 2010 (%)
<i>Yinsheng Investments and its group of companies</i>		
Shandong Yinguang Chemical Industry Co., Ltd (Rental of manufacturing facilities, offices and warehouses)	6,000	1.72
Linyi Yinguang Printing and Packaging Co., Ltd ⁽¹⁾ (Purchase of printing and packaging materials)	1,013	0.29
Shandong Yinguang Drawnwork Co., Ltd ⁽²⁾ (Purchase of embroidery and textile products)	104	0.03
Feixian Yindu Business Hotel Co., Ltd ⁽³⁾ (Provision of hotel accommodation and restaurant services)	136	0.04

Notes:

- (1) Linyi Yinguang Printing and Packaging Co., Ltd is 75% owned by Shandong Yinguang Chemical Industry Co., Ltd and 25% owned by Shandong Yinguang Drawnwork Co., Ltd.
- (2) Shandong Yinguang Drawnwork Co., Ltd is 82.0% owned by Yinsheng Investments and 18.0% owned by third parties.
- (3) Feixian Yindu Business Hotel Co., Ltd is 20.0% owned by Shandong Yinguang Chemical Group Co., Ltd, 55.0% owned by Shandong Yinguang Drawnwork Co., Ltd and 25.0% owned by third parties.

7. INTEREST OF DIRECTORS AND CONTROLLING SHAREHOLDERS

Save as disclosed in Section 3.1, none of the Directors or controlling shareholders of the Company has any interest, direct or indirect, in the Proposed Acquisition.

Mr Sun Bowen will abstain from making any recommendation in respect of the Proposed Acquisition. Mr Sun Bowen and his associates will also abstain from voting on the ordinary resolution in respect of the Proposed Acquisition to be proposed at the EGM and they will not accept nominations as proxy or otherwise for voting at the EGM in respect of such resolution.

8. NO APPOINTMENT OF DIRECTORS IN THE COMPANY

The Agreement does not provide for the appointment of any directors to the Board of Directors of the Company pursuant to or in connection with the Proposed Acquisition.

9. INDEPENDENT FINANCIAL ADVISER

Provenance Capital Pte. Ltd. has been appointed as the Independent Financial Adviser (the "IFA") to the independent Directors of the Company to opine on whether the financial terms of the Proposed Acquisition are on normal commercial terms and are not prejudicial to the interests of the Company and its minority Shareholders.

10. AUDIT COMMITTEE'S STATEMENT

The Company's Audit Committee members, being, Mr Wee Phui Gam, Mr Ong Tai Tiong Desmond and Dr Lim Seck Yeow, will consider the opinion of the IFA when it issues its IFA opinion letter in due course and will form a view, which will be set out in the circular as referred to below when it is finalised.

11. DOCUMENTS AVAILABLE FOR INSPECTION

A copy of the Agreement will be made available for inspection during normal business hours at the registered office of the Company for a period of three (3) months from the date of this announcement.

12. CIRCULAR TO SHAREHOLDERS

A circular containing details of the Proposed Acquisition, the independent valuation report summary, the opinion of the IFA and a notice convening the EGM of the Company will be despatched to the Shareholders in due course.

The Proposed Acquisition is both an Interested Person Transaction as well as a major transaction for which the approval of Shareholders is required to be sought at the EGM.

13. DIRECTORS' RESPONSIBILITY STATEMENT

This announcement has been reviewed and approved by the Board of Directors (including those who may have been delegated detailed supervision of the preparation of this announcement) who have taken all reasonable steps to ensure that, to the best of their knowledge and belief, the facts stated and the opinions expressed in this announcement are fair and accurate, and that no material facts have been omitted from this announcement. Accordingly, the Board of Directors jointly and severally accepts responsibility in this connection. Where any information contained in this announcement has been extracted from published or otherwise publicly available sources, the sole responsibility of the Board of Directors has been to ensure that such information has been accurately and correctly extracted from these sources.

For and on behalf of the Board

Fabchem China Limited

Dr Lim Seck Yeow

Non-Executive Chairman

27 April 2011