

FABCHEM CHINA LIMITED

(Company Registration Number: 200413128G)

THE PROPOSED ACQUISITION BY THE COMPANY OF THE EQUITY INTEREST OF HEBEI YINGUANG CHEMICAL CO., LTD

1. INTRODUCTION

The Board of Directors of Fabchem China Limited (the "Company") hereby announces that the Company's wholly-owned subsidiary Shandong Yinguang Technology Co., Ltd. (the "Purchaser") has on 19th December 2007 entered into an equity purchase agreement ("EPA") with Shandong Yinguang Chemical Group Co. Ltd (the "Vendor"), in relation to a proposed acquisition of the entire equity interest of Hebei Yinguang Chemical Co., Ltd ("Target Company") ("Proposed Acquisition").

About the Target Company

The Target Company, a wholly-owned subsidiary of the Vendor, is a company incorporated in the PRC and is located at Chenlin, West of Linxi County, Hebei Province, the PRC. The Target Company is principally engaged in the business of manufacturing and selling Ammonia Nitrate. Ammonia Nitrate is a major raw material for explosives. With involvement of such specialty raw material, the Target Company can deliver extra value to the explosives industry thus tightened the relationship with the industry for company's further growth.

The Target Company owns a manufacturing facility with a total land area of approximately 127,000m² and build-up area of 20,000m². Currently, the Target Company has a production capacity of 30,000 tonnes of Ammonia Nitrate and had only commenced its manufacturing activities in April 2007 after a restructuring exercise. The Target Company intends to expand its production capacity to 70,000 tonnes by the first half of the next financial year.

The Target Company has an enterprise value of approximately RMB 58.2 million, comprising the Target Company's registered capital of RMB 9 million, an existing Shareholder's Loan (defined below) of approximately RMB 15.1 million and an Existing Loan (defined below) of approximately RMB 34.1 million.

The Proposed Acquisition is an interested person transaction defined under Chapter 9 of the Listing Manual of the SGX-ST and its completion is conditional upon the approval of the shareholders of the Company pursuant to Rule 906(1) of the Listing manual of the SGX-ST. Please refer to Paragraph 6 of this Announcement for further details.

2. SALIENT POINTS OF THE EPA

a. Sale and Purchase of the Equity Interest

The Vendor shall sell, and the Purchaser shall purchase, the equity interest of the Target Company representing one hundred percent (100%) of the Target Company's registered capital of RMB 9 million (the "Equity Interest") at an aggregate purchase price of RMB 24,126,316.74 (the "Purchase Price"). The Proposed Acquisition is targeted to be completed within seven (7) business days after the date on which the last of the conditions precedent under the EPA is fulfilled or such other date as the parties may agree in writing (the "Completion Date"), subject to the fulfillment of the relevant conditions precedent.

The Purchase Price was arrived at on a willing buyer-willing seller basis and determined based on the aggregate amount of the Equity Interest of RMB 9 million as at the date of the EPA and an existing shareholder's loan of RMB 15,126,316.74 owing by the Target Company to the Vendor (the "Shareholder's Loan") as at the date of the EPA. The Shareholder's Loan will be assigned to the Purchaser as part of the Acquisition.

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The Purchase Price will be satisfied by means of cash payment in two (2) tranches as follow:-

- (a) RMB 9,000,000 within one (1) week from the Completion Date; and
- (b) the remaining amount of RMB 15,126,316.74 on the date which is three (3) months after the Completion Date.

The Purchase consideration will be satisfied using internally generated funds.

b. Conditions Precedent

The obligations of the parties relating to the Acquisition will be subject to the fulfilment of inter alia the following conditions precedent:

- i. the results of such legal and financial due diligence investigations on the Target Company conducted by the Purchaser and its advisors or representatives, being satisfactory to the Purchaser in its sole and absolute discretion;
- ii. the representations and warranties of the Vendor contained in the EPA shall be accurate in all material respects as of the date of the EPA and as of the Completion Date;
- iii. no change, situation, development or other event having, or which could reasonably be expected to have, a material adverse effect, other than as disclosed in the EPA, shall have occurred;
- iv. the approval of each of the Vendor's shareholders at a general meeting and each of their board of directors (as applicable) in respect of the proposed transactions described above shall have been obtained;
- v. the approval of each of the Purchaser's shareholders at a general meeting and approval of the board of directors of the Purchaser in respect of the proposed transactions described above shall have been obtained;
- vi. all other necessary consents and approvals, if any, being granted and not withdrawn or revoked by third parties (including without limitation, government bodies, stock exchange and other relevant authorities having jurisdiction over the transactions contemplated under the EPA);
- vii. the execution of a loan repayment agreement between the Fertilizer Company (defined below) and the Target Company relating to the repayment of the Existing Loan (defined below) to the Fertilizer Company on such terms and conditions as shall be acceptable to the Purchaser;
- viii. the execution and delivery by the Vendor of a deed of assignment, the terms of which shall be acceptable to the Purchaser, in respect of the assignment of the Shareholder's Loan to the Purchaser.

"Existing Loan" means the existing loan of RMB34,129,014.56 as at the date of the EPA due from and owing by the Target Company to Linxi County Nitrogenous Fertilizer Co., Ltd. (临西县氮肥有限责任公司) (the "Fertilizer Company"), being the outstanding purchase price for the purchase by the Target Company of its current business and assets from the Fertilizer Company pursuant to and in accordance with an Asset Purchase Contract dated 3 January 2007 (as supplemented by a Supplement Agreement dated 14 July 2007).

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c. Indemnification Obligations by the Vendor

The Vendor has undertaken to indemnify, defend and hold harmless the Purchaser, its successors, or assignees, at the sole discretion of the Purchaser, from and against (i) any and all losses, damages, charges, deficiencies, penalties, claims, demands, actions, suits or proceedings, settlements and compromises relating thereto and reasonable attorneys' fees and expenses in connection therewith, and (ii) any increase in liability or decrease in assets of the Target Company, relating to, resulting from or arising out of any inaccuracy or breach of any representation or warranty of the Vendor contained in the EPA or in any agreement, certificate or other document delivered pursuant to.

3. RATIONALE

Enhance product range

Currently the main revenue of our Group is derived solely from initiation systems, i.e. boosters, seismic charges, detonating cords, detonators, etc. With our Group's long term developing strategy, the management plan to be a fully integrated company with ammonia nitrate on the raw material end, explosives and initiation systems as the main stream of products with blasting service as a unique value tool to differ our Group from other commercial explosives manufacturers in China. This acquisition plan is the first project to implement the integrated business value proposition. This project will secure the Group's position in further developing its commercial explosives business and strengthen the pull-through for initiation systems.

Strategic location

Due to its unique location and its existing customer base, the Group can immediately start a firm relationship with the Hebei Province Office of Science, Technology and Industry for National Defence ("Hebei CONSTIND"). This will assist with the Ammonia Nitrate sales in the province, as well as support growth for our initiation systems to Hebei province. Further, a foundation can be laid for our Group's future expansion into Hebei explosives business. With a foot step into neighboring provinces' explosives business by supplying raw material to them, this will align our Group with future market expansion plans.

Competitive advantage- Barrier to entry

According to the State Council No. 52 amendment in 2002, the PRC has stopped issuing new Ammonia Nitrate license and sales of Ammonia Nitrate is subject to the explosives sales management, thus barrier to entry has been increased. Additionally, with the regulation on the sales of Ammonia Nitrate for explosives use, it becomes difficult for those Ammonia Nitrate manufacturers who are currently focusing on fertilizer business to supply Ammonia Nitrate to explosives manufacturers.

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4. FINANCIAL EFFECTS

The pro forma financial effects of the Proposed Acquisition on the Company are for illustrative purposes only and do not reflect the actual future financial position of the Company following the Completion of the Proposed Acquisition. The pro forma financial effects in this section are based on the audited consolidated financial statements of the Company for the financial year ended 31 March 2007 and assuming that the Completion had been completed on 1 April 2006 for the purpose of the financial effect on earnings per share ("EPS") and 31 March 2007 for the purpose of the financial effect on the net tangible assets ("NTA") and gearing.

Share Capital

The pro forma effects on the issued and paid-up share capital of the Company after the Proposed Acquisition are as follows: -

	Number of Shares	RMB'000
Issued and paid-up share capital before the Acquisition	234,000,000	116,849
Enlarged issued and paid-up share capital after the Acquisition	234,000,000	116,849

Earnings per Share

The pro forma financial effects of the Proposed Acquisition on the earnings per share of the Company for FY2007, assuming that the Proposed Acquisition had been effected as at 1 April 2006 are as follows: -

	RMB cents
Earnings per Share before adjusting for the Acquisition:-	18.24
Earnings per Share after adjusting for the Acquisition:-	18.24

Net Tangible Assets

The pro forma financial effects of the Proposed Acquisition on the net tangible assets ("NTA") of the Company as at 31 March 2007, assuming that the Proposed Acquisition had been effected as at 31 March 2007 are as follows: -

	NTA RMB'000	NTA per share RMB cents
Before adjusting for the Acquisition	220,462	94.2
After adjusting for the Acquisition	220,462	94.2

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Gearing

The pro forma financial effects of the Proposed Acquisition on the gearing of the Company for FY2007, assuming that the Proposed Acquisition had been effected as at 31 March 2007 are as follows: -

	Times
Gearing before adjusting for the Acquisition	-
Gearing after adjusting for the Acquisition	-

5. RELATIVE FIGURES UNDER RULE 1006 OF THE LISTING MANUAL

The relative figures computed on the bases set out in Rule 1006 of the Listing Manual are as follows:-

- | | |
|---|--------------------------------|
| (a) The net asset value of the assets to be disposed of compared with the Group's net asset value. | Not applicable |
| (b) The net profits ⁽ⁱ⁾ attributable to the assets acquired or disposed of compared with the Group's net profits. | Not applicable ⁽ⁱⁱ⁾ |
| (c) The aggregate value of the consideration given or received compared with the issuer's market capitalisation on 18 th December 2007, being the market day preceeding the date of the EPA. | 6.4% |
| (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) Under Rule 1002(3)(b), "net profits" means profit or loss before income tax, minority interests and extraordinary items.

(ii) The Target Company only commenced its manufacturing activities in April 2007.

For the purposes of this paragraph 8 (*Relative Figures Under Chapter 10 of the Listing Manual*), "Group" means the Company and its subsidiaries.

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6. DETAILS OF INTERESTED PERSON TRANSACTION

The Vendor is an investment holding company.

The Company's major shareholders and directors, Sun Bowen and Bao Hongwei, are also the directors of the Vendor and has an aggregate direct and indirect interest of 62.4% and 6.0% of the registered capital of the Vendor respectively, as at the date of this announcement.

As such, Sun Bowen and Bao Hongwei are deemed to be an interested person with respect to the Proposed Acquisition and the Proposed Acquisition is deemed an Interested Person Transaction within the meaning defined in Chapter 9 of the Listing Manual.

The aggregate value of the Proposed Acquisition is RMB 24.1 million and represents approximately 10.9% of the latest audited consolidated NTA of RMB 220.5 million for the Company and its subsidiaries (the "Group") as at the financial year ended 31 March 2007. As the value of the Proposed Acquisition is more than 5% of the latest audited consolidated NTA of the Group, for the purposes of Chapter 9 of the Listing Manual, independent shareholders' approval is required for the Acquisition. Accordingly, a circular containing further details of the Proposed Transaction will be sent to all shareholders in due course.

7. TOTAL INTERESTED PERSON TRANSACTIONS DURING THE CURRENT FINANCIAL YEAR

As mentioned above, the aggregate value of the Proposed Acquisition is RMB 24.1 million, representing approximately 10.9% of the latest audited consolidated NTA of the Group of RMB 220.5 million as at 31 March 2007.

The aggregate value of all interested person transactions (excluding the Proposed Acquisition) for the current financial year up to the date of this announcement with the Vendor's subsidiary companies is approximately RMB 4.4 million, representing approximately 2.0% of the latest audited consolidated NTA of the Group as at 31 March 2007.

8. INTEREST OF DIRECTORS AND CONTROLLING SHAREHOLDERS

Save as disclosed above, none of the directors or controlling shareholders of the Company has any interest, direct or indirect, in the EPA and the Proposed Acquisition. Sun Bowen and Bao Hongwei will abstain from making any recommendation and from voting on the Proposed Acquisition and has undertaken to ensure that his associates will abstain from voting at the EGM to be convened to consider and approve the Proposed Acquisition.

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9. AUDIT COMMITTEE'S STATEMENT

Pursuant to Rule 921(4) of the Listing Manual, the Company has appointed Omega Capital as the independent financial advisor (the "IFA") to advise the Audit Committee 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.

After taking into account the opinion of the IFA, the Audit Committee will form its views on the Proposed Acquisition and set out their opinions in the Circular to be dispatched to the shareholders of the Company in due course.

10. RESPONSIBILITY STATEMENT

The directors of the Company (including those who have been delegated supervision of this announcement) collectively and individually accept full responsibility for the accuracy of the information given in this announcement and confirm, after making all reasonable enquiries that to the best of their knowledge and belief, the facts stated and opinions expressed in this announcement are accurate and fair in all material respects as at the date hereof, and that there are no material facts the omission of which would make this announcement misleading.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the EPA 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

A circular containing further details of the Proposed Acquisition and enclosing the notice of extraordinary general meeting to be convened in connection therewith will be despatched by the Company to Shareholders in due course.

By Order of the Board of Directors

Sun Bowen
Managing Director

19th December 2007