

CIRCULAR DATED 12 JULY 2011

THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. PLEASE READ IT CAREFULLY.

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.

If you have sold or transferred all your shares in the capital of Fabchem China Limited (“**Fabchem**” or the “**Company**”), please forward this Circular, the Notice of Extraordinary General Meeting and the attached Proxy Form immediately to the purchaser or to the agent through whom the sale or the transfer was effected for onward transmission to the purchaser or the transferee.

The Singapore Exchange Securities Trading Limited assumes no responsibility for the correctness of any statements made or opinions expressed or reports contained in this Circular.



FABCHEM CHINA LIMITED

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

CIRCULAR TO SHAREHOLDERS

IN RELATION TO

**THE PROPOSED ACQUISITION OF THE PROPERTY (AS DEFINED HEREIN) BY
SHANDONG YINGUANG TECHNOLOGY CO., LTD., A WHOLLY-OWNED SUBSIDIARY
OF THE COMPANY**

Independent Financial Adviser to the Independent Directors of the Company



PROVENANCECAPITAL

PROVENANCE CAPITAL PTE. LTD.

(Incorporated in the Republic of Singapore)
(Company Registration Number: 200309056E)

IMPORTANT DATES AND TIMES

- | | | |
|--|---|---|
| Last date and time for lodgement of Proxy Form | : | 26 July 2011 at 10.30 a.m. |
| Date and time of Extraordinary General Meeting | : | 28 July 2011 at 10.30 a.m. (or immediately after the conclusion of the Annual General Meeting scheduled at 9.30 a.m. on the same day and at the same place) |
| Place of Extraordinary General Meeting | : | 39 Fishery Port Road, Jurong
Singapore 619745 |

CONTENTS

	Page
LETTER TO SHAREHOLDERS	6
1 INTRODUCTION	6
2 THE ACQUISITION	6
3 REQUIREMENTS OF CHAPTER 9 OF THE LISTING MANUAL	10
4 REQUIREMENTS OF CHAPTER 10 OF THE LISTING MANUAL	13
5 INFORMATION ON THE PROPERTY	13
6 RATIONALE FOR THE ACQUISITION	16
7 FINANCIAL EFFECTS OF THE ACQUISITION	17
8 INTERESTS OF DIRECTORS AND SUBSTANTIAL SHAREHOLDERS IN THE ACQUISITION	18
9 INDEPENDENT FINANCIAL ADVISER'S OPINION IN RESPECT OF THE ACQUISITION ..	19
10 STATEMENT FROM THE AUDIT COMMITTEE	19
11 INDEPENDENT DIRECTORS' RECOMMENDATION	19
12 ABSTENTIONS	19
13 DIRECTORS AND THE VENDOR'S RESPONSIBILITY STATEMENTS.....	20
14 THE EGM	20
15 ACTION TO BE TAKEN BY SHAREHOLDERS	20
16 CONSENTS.....	20
17 DOCUMENTS AVAILABLE FOR INSPECTION	21
APPENDIX A	22
APPENDIX B	42
NOTICE OF EXTRAORDINARY GENERAL MEETING	54
PROXY FORM	

DEFINITIONS

In this Circular, the following definitions apply throughout unless otherwise stated:-

Companies, Organisations and Agencies

- “CDP” : The Central Depository (Pte) Limited
- “Fabchem” or the “Company” : Fabchem China Limited
- “Group” : Fabchem and its subsidiaries as at the Latest Practicable Date, namely Shandong Yinguang Technology Co., Ltd. and Hebei Yinguang Chemical Co., Ltd.
- “Purchaser” : Shandong Yinguang Technology Co., Ltd., a wholly-owned subsidiary of the Company
- “SGX-ST” : Singapore Exchange Securities Trading Limited
- “Vendor” : Shandong Yinguang Chemical Industry Co., Ltd.

General

- “Acquisition” : The proposed acquisition of the Property pursuant to and subject to the terms and conditions of the Agreement
- “Agreement” : The sale and purchase agreement dated 26 April 2011 entered into between the Vendor and the Purchaser in relation to the Acquisition
- “Associate” : This term shall have the same meaning as ascribed to it in the SGX-ST Listing Manual, as amended from time to time
- “Board” : The board of Directors of the Company as at the date of this Circular
- “Business Day” : A day (excluding Saturdays, Sundays and gazetted public holidays) on which commercial banks are open for business in Singapore and PRC
- “Circular” : This Circular to Shareholders dated 12 July 2011
- “Companies Act” : The Companies Act, Chapter 50 of Singapore
- “Completion” : The legal completion of the Acquisition in accordance with the terms of the Agreement
- “Completion Date” : The date of Completion, being 30 June 2013, or such other date as the parties to the Agreement may mutually agree in writing
- “Conditions” : Has the meaning ascribed to it in Section 2.4 of this Circular
- “Consideration” : RMB 108.7 million, payable by the Purchaser to the Vendor, to be satisfied in cash in accordance with the Agreement

“Controlling Shareholder”	: A person who:- (i) holds directly or indirectly 15% or more of the total number of issued shares excluding treasury shares in a company (provided that the SGX-ST may determine that a person who satisfies this definition is not a controlling shareholder); or (ii) in fact exercises control over a company
“Directors”	: The directors of the Company as at the date of this Circular
“EGM”	: The extraordinary general meeting of the Shareholders to be convened for the purposes of considering and, if thought fit, passing the resolution set out in the Notice of EGM set out on page 54 of this Circular
“FY”	: Financial year of the Company ended or ending 31 March
“Independent Directors”	: The Directors of the Company who are deemed to be independent in respect of the Acquisition, namely, Dr Lim Seck Yeow, Bao Hongwei, Peter Neville Hogan, Christopher Michael Furnell, Ong Tai Tiong Desmond, Jiang Rongguang, and Wee Phui Gam
“Independent Shareholders”	: Shareholders other than Sun Bowen and his Associates, who are each deemed to be interested in the Acquisition for reasons set out in Section 3.3 of this Circular
“Interested Person”	: A person who is considered an “interested person” within the meaning of Chapter 9 of the Listing Manual
“Interested Person Transaction”	: A transaction entered into between the Group and an Interested Person
“Latest Practicable Date”	: 30 June 2011, being the latest practicable date prior to the printing of this Circular
“Listing Manual”	: The listing manual of the SGX-ST as amended from time to time
“Market Day”	: A day on which the SGX-ST is open for trading in securities
“Notice of EGM”	: The notice of the EGM as set out on page 54 of this Circular
“NTA”	: Net tangible assets
“PRC”	: The People’s Republic of China, excluding Hong Kong and the Macau Special Administrative Region
“Property”	: The property to be acquired by the Purchaser from the Vendor pursuant to and in accordance with the Agreement and comprising a total land area of 439,036.06 square metres and all the buildings situated thereon with a total build-in area of 21,040.68 square metres together with all ancillary structures, fixtures and fittings, such land and buildings located at Fei County, Linyi City, Shandong Province, PRC, details of which are set out in Section 5 of this Circular
“Shareholders”	: Registered holders of Shares, except that where the registered holder is the CDP, the term “Shareholders” shall, in relation to such Shares, mean the persons whose direct Securities Accounts maintained with the CDP are credited with the Shares

“Shares”	:	Ordinary shares in the share capital of the Company
“subsidiary”	:	Has the meaning ascribed to it in the Companies Act
“Threshold”	:	5% of the latest audited NTA of a listed company
“Valuation Report”	:	A valuation report dated 27 April 2011 issued by the Valuer
“Valuer”	:	Shanghai Yinxin Huiye Appraisal Co., Ltd. 上海银信汇业资产评估有限公司

Currencies, Units of Measurements and Others

“RMB”	:	Renminbi, the lawful currency of PRC
“S\$” or “SGD” and “cents”	:	Singapore dollars and cents respectively, the lawful currency of the Republic of Singapore
“sq m” or m ² ”	:	Square metres
“%”	:	Per centum or percentage

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

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. References to persons shall include corporations.

Any reference in this Circular to any enactment is a reference to that enactment as for the time being amended or re-enacted. Any word defined under the Companies Act or the Listing Manual or any statutory modification thereof and not otherwise defined in this Circular shall have the same meaning assigned to it under the Companies Act or the Listing Manual or any statutory modification thereof, as the case may be.

Any reference to a time of day in this Circular is made by reference to Singapore time unless otherwise stated.

Any discrepancies in tables included herein between the amounts listed 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.

LETTER TO SHAREHOLDERS

FABCHEM CHINA LIMITED

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

Board of Directors:

Dr Lim Seck Yeow
Sun Bowen
Bao Hongwei
Peter Neville Hogan
Christopher Michael Furnell
Ong Tai Tiong Desmond
Wee Phui Gam
Jiang Rongguang

Registered Office:

8 Cross Street
#11-00 PWC Building
Singapore 048424

Date: 12 July 2011

To: The Shareholders of Fabchem China Limited

Dear Sir/Madam

THE PROPOSED ACQUISITION OF THE PROPERTY BY A WHOLLY-OWNED SUBSIDIARY OF THE COMPANY FROM AN INTERESTED PERSON

1 INTRODUCTION

- 1.1 On 27 April 2011, the Directors announced (the “**Announcement**”) that the Purchaser, a wholly-owned subsidiary of Fabchem, had entered into a property transfer agreement dated 26 April 2011 (the “**Agreement**”) with the Vendor pursuant to which the Purchaser has agreed, subject to the satisfaction or waiver of the Conditions, to acquire the Property for the Consideration. A copy of the Announcement is available on the website of SGX-ST at www.sgx.com.
- 1.2 The purpose of this Circular is to provide Shareholders with the relevant information pertaining to the Acquisition including, *inter alia*, the salient terms and conditions of the Acquisition, information on the Property, the rationale and the financial effects of the Acquisition. The approval of the Independent Shareholders for the Acquisition will be sought at the EGM.

2 THE ACQUISITION

- 2.1 The Purchaser presently leases from the Vendor the Property at Fei County, Linyi City, Shandong Province, PRC where the Group’s manufacturing facilities and warehouses (for the manufacture of the Group’s initiation systems products) are located (the “**Lease**”). The Group’s other manufacturing sites are located at (i) Linxi County, Hebei Province for the manufacture of the Group’s ammonium nitrate by Hebei Yinguang Chemical Co., Ltd. and (ii) Shanting District, Zaozhuang City, Shandong Province for the manufacture of seismic charges.

The said 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 Property from the Vendor at an agreed purchase price of RMB 108.7 million.

- 2.2 The Purchaser has exercised the Option to purchase the Property and pursuant thereto, executed the Agreement on 26 April 2011 with the Vendor. In the exercise of the Option, the Purchaser had taken into account, *inter alia*, the potential rental increase of the Property. With the prevalent increase of property prices in PRC, exercising the Option to acquire the Property may allow the Group to avoid any likely future rental increment due to higher property prices. Further, in exercising the Option, the Purchaser had also considered the commercial terms (including payment mechanism of the Consideration) of the Acquisition and the Group's current financial position. The latter includes the Group's current cash on hand, the potential revenues and operating cash flow from existing and new business projects and potential capital requirements in the near future.
- 2.3 Pursuant to the Agreement, the Company will acquire from the Vendor the Property at the agreed Consideration. The salient terms of the Agreement are set out below.
- 2.4 **Conditions.** The completion of the Acquisition is conditional upon, *inter alia*, the fulfilment or waiver of the following conditions (each a "**Condition**" and collectively, the "**Conditions**") on or before Completion including, amongst others, the following:-
- i. each party has obtained the requisite written approval from its board of directors or shareholder(s) for the execution and the completion of the Acquisition including but not limited to the approval of the Independent Shareholders of the Company at a general meeting to be convened;
 - ii. all approvals, consents and registration in relation to the 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 (including but not limited to the ownership alteration registration from Fei County Bureau of Land Resources and Fei County Building Administrative Bureau, which as at the Latest Practicable Date have not been obtained) 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;
 - iii. 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 in respect of the Property which have not been obtained prior to the date of the Agreement as referred to in Section 2.7 below);
 - iv. 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;
 - v. 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; and
 - vi. 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.

If any condition precedent cannot be fulfilled for any reason, excluding such condition precedent that 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.

2.5 **The Consideration.** 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 (i.e. the Vendor's historical costs of acquiring the Property) which in aggregate amounts to the Consideration.

The Consideration for the 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 seven (7) business days after signing the Agreement; if approval from the Independent Shareholders for the Acquisition at 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 Acquisition;
 - ii. RMB 9 million after obtaining approval from the Independent 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; and
 - vi. the balance of RMB 8.7 million after the date on which all the relevant ownership titles of the Property (comprising both land use rights and building ownership certificates as described further under Section 5 of this Circular) 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 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 the "**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 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 is not over-stretched if it is unable to obtain the full RMB 70 million of Bank 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.

- (c) 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 the Completion Date, the Agreement shall automatically terminate and all the Consideration paid by the Purchaser as described in 2.5(a) and 2.5(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 or such later date as the parties may agree in writing. The Vendor shall also bear all the losses and costs incurred by the Purchaser for the Acquisition. In addition, Sun Bowen has provided to the Purchaser a personal guarantee on 17 May 2011 to, *inter alia*, guarantee the full refund of all Consideration paid by the Purchaser as aforesaid.
- (d) The Vendor and the Purchaser agree that the rental payable under the Lease shall be payable up to 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 said parties further agree that the Lease in respect of the Property shall cease on the 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 arrangements 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 (c) above at its sole discretion.
- (e) The Vendor and the 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 directly in the name of the Purchaser) with the relevant land and building authorities upon execution of the Agreement. As at the date of this Circular, such ownership alteration registration of the Property has commenced.

- 2.6 **Indemnity provided by the Vendor.** Pursuant to the Agreement, 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.
- 2.7 The Vendor has not obtained certain relevant building ownership certificates in respect of the Property as at the date of the Agreement. The Company understands from the Vendor that the application and issuance of such building ownership certificates would require payment of the related governmental fees and duties. Upon the transfer of these building ownership certificates to the Purchaser pursuant to the acquisition of the Property by the Purchaser, a separate set of governmental fees and duties will also have to be paid. To avoid the duplication of such costs, it was the intention of the Vendor to commence application for the issuance of such building ownership certificates directly in the name of the Purchaser upon the latter exercising the Option and signing the Agreement. As at the date of this Circular, application for issuance of the relevant building ownership certificates has commenced.

3 REQUIREMENTS OF CHAPTER 9 OF THE LISTING MANUAL

3.1 Chapter 9 of the Listing Manual

Under Chapter 9 of the Listing Manual, where a listed company or any of its subsidiaries or associated companies that are entities at risk proposes to enter into a transaction with its interested persons, shareholders' approval and/or an immediate announcement is required in respect of that transaction if its value is equal to or exceeds certain financial thresholds. In particular, shareholders' approval (in addition to an immediate announcement) is required where:

- (a) the value of such transaction with interested persons when aggregated with the values of other transactions previously entered into with the same interested person in the same financial year, equals to or exceeds the Threshold, such aggregation to exclude any transaction that has been approved by shareholders previously or is the subject of aggregation with another transaction that has been previously approved by shareholders; or
- (b) the value of such transaction equals to or exceeds the Threshold.

For the purposes of aggregation, interested person transactions below S\$100,000 each are to be excluded.

3.2 Definitions under Chapter 9

The following terms are defined under Chapter 9 of the Listing Manual:

- (a) the term "approved exchange" means a stock exchange that has rules which safeguard the interests of shareholders against interested person transactions according to similar principles to Chapter 9;
- (b) the term "entity at risk" means:
 - (i) the listed company;
 - (ii) a subsidiary of the listed company that is not listed on the SGX-ST or an approved exchange; or
 - (iii) an associated company of the listed group that is not listed on the SGX-ST or an approved exchange, provided that the listed group, or the listed group and its interested person(s) has control over the associated company;

- (c) an “associate”:
- (i) in relation to any director, chief executive officer, or controlling shareholder (being an individual) means (i) his immediate family; (ii) 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 (iii) any company in which he and his immediate family together (directly or indirectly) have an interest of 30.0% or more; and
 - (ii) in relation to 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 30.0% or more; and
- (d) an “interested person” is defined as a director, chief executive officer or controlling shareholder of the listed company or an associate of any such director, chief executive officer or controlling shareholder.

3.3 Shareholders’ Approval Required for the Acquisition

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. Sun Qiang does not own any Shares. 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 owns 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. Other than Yinsheng Investments’ 61.24% interest in the Vendor, 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 the Purchaser	682,500	1.70
Unrelated Third Party Individuals	14,594,098	36.33
Total	40,176,300	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 Acquisition would thus constitute an Interested Person Transaction within the meaning of Chapter 9 of the Listing Manual.

The aggregate value of the Acquisition is RMB 108.7 million and represents approximately 28.6% of the latest audited consolidated NTA of RMB 380.3 million for the Group as at the financial year ended 31 March 2011. As the value of the 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 Acquisition.

The total of all transactions with the particular interested person for the financial year ended 31 March 2011 ("FY2011") and the total of all interested person transactions for FY2011, are set out as follows:

Interested Person Transactions for FY2011	Value (RMB'000)	As a percentage of latest audited NTA of the Group as at 31 March 2011 (%)
<i>Sun Bowen and his Associates</i>		
Feixian Yinguang Transport Co., Ltd. ⁽¹⁾ (Provision of transportation services)	3,249	0.85
Shandong Yinguang Commercial Explosives Sales and Services Co., Ltd. ⁽²⁾ (Sales of commercial explosives products)	1,877	0.49
Shandong Yinguang Chemical Group Co., Ltd. ⁽³⁾ (Sales of ammonium nitrate)	7,254	1.91

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 established 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 FY2011	Value (RMB'000)	As a percentage of latest audited NTA of the Group as at 31 March 2011 (%)
<i>Yinsheng Investments and its group of companies</i>		
Shandong Yinguang Chemical Industry Co., Ltd. (Rental of manufacturing facilities, offices and warehouses)	8,000	2.10
Linyi Yinguang Printing and Packaging Co., Ltd. ⁽¹⁾ (Purchase of printing and packaging materials)	1,290	0.34
Shandong Yinguang Drawnwork Co., Ltd. ⁽²⁾ (Purchase of embroidery and textile products)	228	0.06
Feixian Yindu Business Hotel Co., Ltd. ⁽³⁾ (Provision of hotel accommodation and restaurant services)	255	0.07

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.

4 REQUIREMENTS OF CHAPTER 10 OF THE LISTING MANUAL

- 4.1 **General Rule under Chapter 10 of the Listing Manual.** Under Rule 1014 of the Listing Manual, it is provided that where any of the relative figures computed on the bases set out in Rule 1006 of the Listing Manual exceeds 20%, the transaction is classified as a major transaction. Rule 1014 of the Listing Manual further states that a major transaction must be made conditional upon the approval of shareholders in a general meeting.
- 4.2 **Application of Rule 1006 of the Listing Manual.** The relative figures computed under Rule 1006 of the Listing Manual are as follows:-

Rule 1006(a)

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

Rule 1006(b)

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

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%⁽ⁱⁱⁱ⁾*

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) Under Rule 1002(3)(b), "net profits" means profit or loss before income tax, minority interests and extraordinary items.
- (ii) 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.
- (iii) This represents the Consideration as a percentage of the Company's market capitalisation of RMB 233.8 million on 25 April 2011 (based on an exchange rate of S\$1.00: RMB 5.259).

Since the relative figure for Rule 1006(c) exceeds 20% in respect of the Acquisition, the Acquisition is regarded as a major transaction pursuant to Rule 1014 of the Listing Manual. Accordingly, the Acquisition is conditional upon the approval of the Shareholders in a general meeting.

5 INFORMATION ON THE PROPERTY

The Property comprises:

- (i) industrial land consisting of both state-owned land and collectively-owned land in accordance with PRC laws; and
- (ii) buildings situated on the industrial land together with all ancillary structures, fixtures and fittings.

The particulars of the Property are set out below.

5.1 (a) Industrial Land - State-owned Land Use Right

The industrial land forming part of the Property to be acquired comprises state-owned land of an aggregate land area of 142,157.06 sq m and is located in Fei County, Linyi City, Shandong Province. The Vendor possesses the relevant land use rights in respect of such state-owned land, the earliest of which expires in December 2030 and the latest in April 2055, and details of which are as follows:

No.	Location	Land Area (m ²)	Date of Expiration of Land Use Right ¹	Use/Activities
1.	Changsheng Village, Fei Town, Fei County	6,022.69	20 November 2048	Industrial land
2.	Zhudi, Fei Town, Fei County	23,957.00	20 December 2030	Industrial land
3.	Zhudi, Fei Town, Fei County	26,358.15	17 March 2048	Industrial land
4.	Kele Village, Zhutian Town, Fei County	30,933.16	25 December 2030	Industrial land
5.	Kele Village, Zhutian Town, Fei County	13,261.90	20 April 2055	Industrial Land
6.	Zhudi, Fei Town, Fei County	41,624.16	20 November 2048	Industrial Land
	Total	142,157.06		

Note:

- (1) To renew the state-owned land use right, the land use right user must (i) apply for the extension of the duration of the land use right from Fei County People's Government within at least one (1) year prior to the expiration of the land use right; (ii) enter into a new land use right grant agreement with the Fei County Bureau of Land Resources; and (iii) obtain the new land use right certificate from the Fei County Bureau of Land Resources.

(b) Industrial Land - Collectively-owned Land Use Right

The industrial land forming part of the Property to be acquired also comprises collectively-owned land of an aggregate land area of 296,879 sq m and is also located in Fei County, Linyi City, Shandong Province. The Vendor possesses the relevant land use rights in respect of such collectively-owned land, all of which expire in February 2037, and details of which are as follows:

No.	Location	Land Area (m ²)	Date of Expiration of Land Use Right ⁵	Use/Activities
1.	Xin'an, West Fei Town, Fei County ¹	79,136	25 February 2037	Industrial Land
2.	Tulonggou Village, Fei Town, Fei County ²	58,508	25 February 2037	Industrial Land
3.	Xin'an, West Fei Town, Fei County ¹	74,034	25 February 2037	Industrial Land
4.	Tulonggou Village, Fei Town, Fei County ³	70,220	25 February 2037	Industrial Land
5.	Changsheng Village, Fei Town, Fei County ⁴	14,981	25 February 2037	Industrial Land
	Total	296,879		

Notes:

- (1) These land parcels are collectively owned by the villagers of Xin'an Village (新安村).
- (2) This land parcel is collectively owned by the villagers of Changsheng Village (常胜庄), Taoyuan Village (桃园村), Tulonggou Village (土龙沟村) and Lehe Village (乐合村).
- (3) This land parcel is collectively owned by the villagers of Xin'an Village (新安村) and Tulonggou Village (土龙沟村).
- (4) This land parcel is collectively owned by the villagers of Lehe Village (乐合村) and Changsheng Village (常胜庄).
- (5) To renew the collectively-owned land use right, the land use right owner shall (i) apply for the extension of the duration of the land use right from the owner of the collectively-owned land within six (6) months prior to the expiration of such land use right; (ii) obtain the approval of such extension from the Fei County People's Government and Linyi Municipal People's Government; and (iii) obtain the new land use right certificate from the Fei County Bureau of Land Resources.

5.2 Buildings situated on the industrial land together with all ancillary structures, fixtures and fittings

The total build-in area of all the buildings situated on the industry land described in Section 5.1 above is 21,040.68 sq m. These buildings together with ancillary structures and facilities, fixtures and fittings are used by the Group for its production activities and as warehouses. The Vendor has not obtained certain relevant building ownership certificates in respect of the Property as at the date of the Agreement, as referred to in Section 2.7 above.

5.3 Risk Factors

(a) *Risk arising from the volatility of PRC property market*

The value of the Property is subject to the volatility of PRC property market. In the event of negative sentiments in the property market, the Company may be required to make necessary provision on the value of the Property and such provisions may adversely affect the Group's profitability and financial position. Further, in the event that the market value of the Property falls below the amount of outstanding loan balance owing to the bank, the bank may require the Company to make top up payments on such difference and this may adversely affect our cash flow and financial position.

(b) *Acquisition Risks*

While reasonable due diligence exercise have been conducted with respect to the Property and there were no adverse findings, there can be no assurance that the Property will not have defects or deficiencies requiring capital expenditure or repair expenses, or payment or other obligations to third parties, of which the Company may have to bear. In addition, certain laws and regulations (including those in relation to real estate) may have been breached and certain regulatory requirements in relation to the Property may not have been complied with prior to the Acquisition. As a result and in the event that the Company is unable to claim against the Vendor or seek full indemnification from the Vendor for any reason, the Company may incur financial or other obligations in relation to such breaches or non-compliance.

(c) *Credit Risks in respect of Vendor's refund of the Consideration*

As disclosed in sub-sections 2.5(c) and (d) of this Circular, the Agreement provides that 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 the Completion Date, the Agreement shall automatically terminate and any part of the Consideration paid by the Purchaser shall be refunded in full plus interests. The Vendor shall also bear all the losses and costs incurred by the Purchaser for the Acquisition ("**Compensation**"). Although the Purchaser has the right to set off the back-payment of rental under the Lease against such refund, should the amount of refund and Compensation exceed such rental amount significantly, and/or in the event that for any reason the Purchaser is not able to seek any repayment or full repayment from Sun Bowen pursuant to the personal guarantee from Sun Bowen, the Purchaser may be exposed to the risk of the Vendor not being able to make full refund of the Consideration and/or payment of the Compensation or to do so on a timely basis for any reason. Should such an event materialise, the Purchaser's operating cash flow and financial performance may be adversely affected.

5.4 Valuation of the Property

The Group had commissioned the Valuer to undertake an independent valuation on the Property to provide the Independent Shareholders with an opinion of the market value of the Property.

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

Based on the said valuation by the Valuer as at 31 March 2011, the market value of the Property as determined by the Valuer is approximately RMB 119.656 million. In arriving at their opinion, the Valuer had adopted the replacement cost approach to value the buildings and ancillary structures referred to in Section 5.2 above, and the market approach to value the industrial land referred to in Section 5.1 above.

Please refer to the Valuation Report issued by the Valuer under Appendix A of this Circular.

6 RATIONALE FOR THE ACQUISITION

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

The Property will provide a permanent operation base for the Group

The 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. Most of the relevant facilities required for the Group's current operations in Fei County are located within the Property. The 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 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 Consideration is at a discount to the market valuation of the Property

The Consideration is determined based on the costs of investment incurred by the Vendor, and is approximately 9.2% lower than the market valuation as referred to in Section 5.4 above.

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

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

7 FINANCIAL EFFECTS OF THE ACQUISITION

The pro forma financial effects of the Acquisition on the Group are for illustrative purposes only and do not reflect the actual future financial position of the Group following the Completion of the Acquisition. The pro forma financial effects in this Section are based on the audited consolidated financial statements of the Group for the financial year ended 31 March 2011 and assuming that the Completion had been completed on 1 April 2010 for the purpose of the financial effect on earnings per share ("EPS") and 31 March 2011 for the purpose of the financial effect on the NTA and gearing.

7.1 Share Capital

As at the Latest Practicable Date, the issued share capital of the Company is S\$23,458,985 comprising 234,000,000 Shares. The Acquisition will have no impact on the issued and paid-up share capital of the Company.

7.2 Earnings Per Share

The pro forma financial effects of the Acquisition on the EPS of the Group for FY2011, assuming that the Acquisition had been effected as at 1 April 2010 are as follows:-

	Before Acquisition	After Acquisition
Net profit after tax (RMB '000)	35,324	34,239*
Weighted average number of shares ('000)	234,000	234,000
EPS (RMB cents)	15.10	14.63

* Includes estimated one-off expenses of approximately RMB 0.6 million to be incurred in connection with the Acquisition and is based on the current annual rental of RMB 8 million for the Property. If the calculation of the net profit after tax ("NPAT") is based on the increase in such annual rent (referred to in section 6 above and paragraph 5.4 (c) of Appendix B on page 52 of this Circular), this NPAT figure would increase accordingly.

7.3 Net Tangible Assets

The pro forma financial effects of the Acquisition on the NTA of the Group as at 31 March 2011, assuming that the Acquisition had been effected as at 31 March 2011 are as follows:-

	Before Acquisition	After Acquisition
NTA (RMB'000)	380,293	380,293
NTA per share (RMB cents)	162.52	162.52

7.4 Gearing

The pro forma financial effects of the Acquisition on the gearing of the Group for FY2011, assuming that the Acquisition had been effected as at 31 March 2011 are as follows:

	Before Acquisition	After Acquisition
Total Debt* (RMB '000)	25,000	95,000
Total Equity (RMB '000)	386,834	386,834
Debt to Equity Ratio	6.5%	24.6%

* Includes only loans from banks and financial institutions and the proposed RMB70 million loan to finance the purchase of the Property

8 INTERESTS OF DIRECTORS AND SUBSTANTIAL SHAREHOLDERS IN THE ACQUISITION

8.1 Interests of Directors and Substantial Shareholders in the Acquisition

As described in Section 3.3 above, due to the interests of Sun Qiang in the Vendor and as he is the son, and by definition an Associate, of Sun Bowen, the Company's controlling shareholder and Managing Director, Sun Bowen is deemed to be an interested person with respect to the Acquisition. As such, Sun Bowen will abstain from making any recommendation and he and his Associates will also abstain from voting on the ordinary resolution in respect of the Acquisition to be proposed at the EGM and they will also not accept nominations as proxy or otherwise for voting at the EGM in respect of such resolution.

As at the Latest Practicable Date, the interests of Directors and Substantial Shareholders in the issued and paid-up share capital are as follows:

Name of Director/ Substantial Shareholder	Direct interest		Deemed interest	
	No. of Shares	%	No. of Shares	%
Directors				
Sun Bowen ⁽¹⁾	–	–	75,700,000	32.35
Bao Hongwei ⁽²⁾	4,788,000	2.05	8,604,000	3.68
Dr Lim Seck Yeow ⁽³⁾	–	–	18,334,000	7.84
Substantial Shareholders				
Fortsmith Investments Limited	75,700,000	32.35	–	–
DNX Australia Pty Limited	69,966,000	29.90	–	–
Fivestar Limited	18,334,000	7.84	–	–
Lombard Inc.	8,604,000	3.68	–	–
Tan Geok Bee ⁽⁴⁾	4,231,000	1.81	18,334,000	7.84

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 Singapore Companies Act.
- (2) Mr Bao Hongwei is deemed to be interested in the Shares held by Lombard Inc. by virtue of Section 7 of the Singapore 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 Singapore 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 Singapore Companies Act.

Save as disclosed above, none of the Directors or Controlling Shareholders of the Company has any interest, direct or indirect, in the Agreement and the Acquisition.

8.2 Appointment of directors in the Company

None of the agreements relating to the Acquisition provides for the appointment of any new directors to the Board of Directors of the Company pursuant to or in connection with the Acquisition.

9 INDEPENDENT FINANCIAL ADVISER'S OPINION IN RESPECT OF THE ACQUISITION

Provenance Capital Pte. Ltd. has been appointed as the Independent Financial Adviser ("IFA") to the Independent Directors in respect of the Acquisition. A copy of the letter from the IFA to the Independent Directors dated 12 July 2011 (the "IFA Letter") setting out its advice in full, is reproduced in Appendix B of this Circular. Shareholders are advised to read the IFA Letter in its entirety.

Taking into consideration the factors set out in the IFA Letter and the information available to the IFA as at the Latest Practicable Date, the IFA is of the opinion that the financial terms of the Acquisition are on normal commercial terms and are not prejudicial to the interests of the Company and the Independent Shareholders.

10 STATEMENT FROM THE AUDIT COMMITTEE

The Audit Committee has reviewed, *inter alia*, the terms of the Acquisition and the rationale for the Acquisition, and is of the opinion that the financial terms of the Acquisition are on normal commercial terms and are not prejudicial to the interests of the Company and the minority Shareholders.

The Audit Committee has not taken a different view from the Independent Financial Adviser's opinion as set out in Section 9 above and the IFA Letter.

The Audit Committee of the Company will be reviewing on a quarterly basis, the progress of the Purchaser's applications to transfer or obtain all the relevant ownership titles of the Property (comprising both land use rights and building ownership certificates as described further under Section 5 of this Circular including but not limited to the relevant building ownership certificates which have not been obtained prior to the date of the Agreement), and the Company will be providing status updates of such progress in its annual reports.

11 INDEPENDENT DIRECTORS' RECOMMENDATION

The Independent Directors having considered the terms of the Agreement as set out in Section 2 of this Circular, the rationale of the Acquisition as set out in Section 6 of this Circular and the advice of Provenance Capital Pte. Ltd. in the IFA Letter, are of the view that the Acquisition is in the best interests of the Company and recommend that Independent Shareholders vote in favour of the resolution in relation to the Acquisition (set out in the Notice of EGM set out on page 54 of this Circular) to be proposed at the EGM to be held on 28 July 2011.

In giving the above recommendation, the Independent Directors have not taken into consideration the specific objectives, financial situation or unique needs and constraints of each Independent Shareholder. **The Independent Directors recommend that any Independent Shareholder who has doubt as to the action he should take should consult his stockbroker, bank manager, solicitor, accountant, tax adviser or other professional adviser.**

Sun Bowen has abstained from making the aforesaid recommendation.

12 ABSTENTIONS

Sun Bowen will abstain from making recommendations and voting on the resolution as set out in the Notice of EGM. He has also undertaken to ensure that his Associates will abstain from voting on such resolution.

13 DIRECTORS AND THE VENDOR'S RESPONSIBILITY STATEMENTS

The Directors (including those who may have delegated detailed supervision of the preparation of this Circular) collectively and individually accept responsibility for this Circular and confirm, after having made all reasonable enquiries, that to the best of their knowledge and belief, the facts stated and opinions expressed in this Circular are fair and accurate in all material respects as at the Latest Practicable Date and that there are no material facts the omission of which would make any statement in this Circular misleading in any material respect.

Where any information has been extracted from published or otherwise publicly available sources (including, without limitation, information relating to the Property), the sole responsibility of the Directors has been to ensure through reasonable enquiries that such information is accurately and correctly extracted from such sources or, as the case may be, accurately reflected or reproduced in this Circular.

The Vendor accepts full responsibility for the accuracy of the information given in this Circular in respect of the Property and confirm, after making all reasonable enquiries that to the best of their knowledge and belief, the facts stated and opinions expressed in this Circular in respect of the Property 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 Circular misleading.

14 THE EGM

The EGM, notice of which is set out on page 54 of this Circular, will be held on 28 July 2011 at 10.30 a.m. at 39 Fishery Port Road, Jurong, Singapore 619745 (or immediately after the conclusion of the Annual General Meeting scheduled at 9.30 a.m. on the same day and at the same place) for the purpose of considering and, if thought fit, passing with or without any modifications, the resolution as set out in the Notice of EGM.

15 ACTION TO BE TAKEN BY SHAREHOLDERS

- 15.1 **Appointment of Proxies.** If a Shareholder is unable to attend the EGM and wishes to appoint a proxy to attend and vote on his behalf, he should complete, sign and return the attached Proxy Form in accordance with the instructions printed thereon as soon as possible and, in any event, so as to reach the registered office of the Company at 8 Cross Street #11-00 PWC Building Singapore 048424 not later than 10.30 a.m. on 26 July 2011. Completion and return of the Proxy Form by a Shareholder will not prevent him from attending and voting in person at the EGM if he so wishes.
- 15.2 **When Depositor regarded as Shareholder.** As stipulated under Section 130D of the Companies Act, a Depositor shall not be regarded as a Shareholder entitled to attend the AGM and to speak and vote thereat unless he is shown to have Shares entered against his name in the Depository Register at 48 hours before the EGM.

16 CONSENTS

Provenance Capital Pte. Ltd. has given and has not withdrawn its written consent to the issue of this Circular with the inclusion of its name and its letter to the Independent Directors set out in Appendix B of this Circular and all references thereto in the form and context in which it appears in this Circular.

The Valuer has given and has not withdrawn its written consent to the issue of this Circular with the inclusion in this Circular of and all references to its name and the Valuation Report in the form and context in which it appears in this Circular.

17 DOCUMENTS AVAILABLE FOR INSPECTION

The following documents may be inspected at the registered office of the Company during normal office hours from the date hereof up to and including the date of the EGM:

- (a) the Memorandum and Articles of Association of the Company;
- (b) the Annual Report of Fabchem for the financial year ended 31 March 2011;
- (c) the Agreement;
- (d) the Valuation Report;
- (e) the personal guarantee from Sun Bowen dated 17 May 2011; and
- (f) the IFA Letter.

Copies of the Agreement and the Valuation Report are also 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 the Announcement.

Yours faithfully

For and on behalf of the Board
Fabchem China Limited

Dr Lim Seck Yeow
Non-Executive Chairman

VALUATION REPORT

VALUATION REPORT
FOR FAIR VALUE OF
PARTS REAL ESTATE OF
SHANDONG YINGUANG
CHEMICAL INDUSTRY CO., LTD.

HYXHYPZ NO. [2011-153]

SHANGHAI YINXIN HUIYE APPRAISAL CO., LTD.

April 27, 2011

Notice: Provided that there is any difference between this English version of the report and the Chinese version, the CHINESE version is ACCURATE.

CONTENTS

EXECUTIVE SUMMARY	1
STATEMENT AND DECLARATION	3
TEXT	4
1. Overview of the consignor and the appraised company.....	4
2. The Appraisal Purpose	5
3. The Appraisal Object and Scope	5
4. Type of Value	10
5. The Appraisal Date	10
6. The appraisal principle.....	11
7. The appraisal standard	11
8. The appraisal basis	12
9. Approaches of Valuation	12
10. Procedures of valuation	14
11. Appraisal Assumptions	15
12. Valuation Conclusion	16
13. Significant events.....	16
14. Application Limit	17
15. Issued Date and Validity Period.....	17
APPENDIX	18

**VALUATION REPORT
FOR FAIR VALUE OF
PARTS REAL ESTATE OF
SHANDONG YINGUANG
CHEMICAL INDUSTRY CO., LTD.**

HYXHYPZ NO. [2011-153]

EXECUTIVE SUMMARY

The following is taken from the report of HYXHYPZ NO. [2011-153]. It is recommended to read the complete valuation report so as to achieve comprehensive understanding of the case.

Project Title: Valuation of parts real estate of Shandong Yinguang Chemical Industry Co., Ltd.

The Consignor and Other Users:

1. The Consignor: Shandong Yinguang Technology Co., Ltd.
2. Other report users: Consignor, Fabchem China Limited and board of directors, and other users prescribed by laws and regulations

The Appraised Company: SHANDONG YINGUANG CHEMICAL INDUSTRY CO., LTD. (Yinguang Chemical Industry)

The Appraisal Object: Fair value of parts real estate of Yinguang Chemical Industry

The Appraisal Scope: Parts real estate of Yinguang Chemical Industry leased to consignor as of the appraisal date

The Appraisal Purpose: Asset transfer

Type of Value: Market Value

Appraisal Date: March 31, 2011

Approach of Valuation: Replacement Cost Approach for buildings, Market Approach for land use right

Appraisal results:

The net book value of real estate is RMB 90,043,448.83 as of March 31, 2011, the appraisal value is RMB 119,655,713.40, the appraisal increment is RMB 29,612,264.57,

and the increment ratio is 32.89%.

Summary of Valuations

The appraisal date: March 31, 2011

MONETARY UNIT: RMB

ITEMS	NBV	Appraisal Value	Increase/Decrease	Increase/Decrease Ratio
	A	B	C=B-A	D=C/A
Buildings	49,564,749.23	64,675,413.40	15,110,664.17	30.49
Land	40,478,699.60	54,980,300.00	14,501,600.40	35.83
Real Estate	90,043,448.83	119,655,713.40	29,612,264.57	32.89

The detail of appraisal results is included in the appraisal detail list.

The period of validity of appraisal results is one year, and will expire on March 30, 2012.

We draw your attention to significant events and limitations when using the appraisal report.

STATEMENT AND DECLARATION

1. The opinions and facts expressed in the report are actual and objective.
2. CPVs (Certified Public Valuer) have no pecuniary relation with the appraised company in the past, at present or in the future, and no conflicts or prejudice with the consignor and other relative parties.
3. The analysis and conclusion of appraisal report are formed based on the principle of independence, impersonality and impartiality, and are only effective under the appraisal assumptions and related conditions.
4. The appraisal result is only effective at the appraisal date of the report. The users of the appraisal report should reasonably determine the period of usage of report in light of assets status and market changes after the appraisal date.
5. CPVs and the appraisal company have related qualifications and experience for the appraisal. We did not use results of other appraisal companies or specialists during the appraisal, except those already stated in the report.
6. CPVs and associates performed on-site work.
7. The purpose of appraisal report is to provide a professional opinion on the value of the appraised company. We are not responsible for the decision made by related parties. The appraisal result shall not be regarded as an assurance of the realizable price of the object of appraisal.
8. It is our responsibility to abide by related laws, regulations, and asset appraisal standard; consignors and related parties are responsible for providing necessary materials, guaranteeing the truth, legality and completeness of materials, and using the appraisal report in an appropriate way.
9. We pay necessary attention to the legal status of the right of appraised company. However, we do not guarantee the legal status of the right of appraised company in any way. Although CPVs have paid necessary attention to the legal ownership of the appraised assets, we are not responsible for any guarantee of the legal ownership.
10. The usage of appraisal report is limited to the purpose prescribed in the report. CPVs and the appraisal company have nothing to do with any consequences from the unsuitable usage of report.

**VALUATION REPORT
FOR FAIR VALUE OF
PARTS REAL ESTATE OF
SHANDONG YINGUANG
CHEMICAL INDUSTRY CO., LTD.**

HYXHYPZ NO. [2011-153]

TEXT

After accepting the consignment, we, Shanghai YINXIN HUIYE Appraisal CO., LTD, undertook the valuation of fair value as of the appraisal date of real estate of the appraised company involved in the appraisal purpose by scientific approaches, through fieldwork, market research and inquiry, and according to related laws, regulations, appraisal standards and principles, and procedure. The details of the appraisal are as follows:

1. Overview of the consignor and the appraised company

1.1 The consignor and other report users

a. The Consignor: Shandong Yinguang Technology Co., Ltd. (Yinguang Technology)

Yinguang Technology is planning to buy parts real estate of Yinguang Chemical Industry.

b. Other report users: Consignor, Fabchem China Limited and board of directors, and other users prescribed by laws and regulations

1.2 The appraised company: Shandong Yinguang Chemical Industry Co., Ltd. (Yinguang Chemical Industry)

PRC organization code: 70635499-4

Business License: 370000018025578

Address: No. 1 Chemical Industry road, feixian county, shandong province, China.

Legal Representative: Sun Bo Wen

Registered Capital: RMB 40,176,300.00

Paid-in Capital: RMB 40,176,300.00

Type of Company: incorporated company

Business scope: nonferrous metal process, plastic process, cotton production, etc.

Operation periods: From March 24th, 1993.

2. The Appraisal Purpose

The appraisal purpose is asset transfer.

Yinguang Technology is planning to buy parts real estate of Yinguang Chemical Industry. The appraisal work is to provide a price reference.

3. The Appraisal Object and Scope

The appraisal object is fair value of parts real estate of Yinguang Chemical Industry as of the appraisal date, and the scope includes parts real estate owned by Yinguang Chemical Industry as of the appraisal date. The net book value of real estate as of March 31, 2011 is as follows:

Net book value of buildings:	RMB 49,564,749.23
Net book value of land use right:	RMB 40,478,699.60
Assets:	RMB 90,043,448.83

Information about buildings are as follows:

Number	Building name	Building area (m ²)	Net book value	Certificate
	Buildings			
1	1#warehouse	225.00	186,449.99	G00010-1
2	2#warehouse	150.00	113,510.52	G00010-2
3	3#warehouse	165.43	118,102.51	Not available
4	4#warehouse	165.43	140,456.30	Not available
5	5#warehouse	165.43	140,456.30	Not available
6	6#warehouse	165.43	140,433.90	Not available
7	7#warehouse	165.43	140,433.90	Not available
8	8#warehouse	146.79	140,433.90	Not available
9	9#warehouse	146.79	140,433.90	Not available
10	10#warehouse	298.30	771,808.35	Not available
11	11#warehouse	146.94	256,122.91	Not available
12	12#warehouse	146.94	256,122.91	Not available
13	Guard room	36.00	2,142.09	Not available
14	Pump room	60.00	27,146.57	Not available
15	Warehouse room	30.03	14,619.60	Not available
16	Dangerous goods warehouse	39.21	18,894.45	Not available
17	Warehouse room	10.00	21,305.75	Not available
18	Power distribution room	20.00	8,338.40	Not available
19	Watch room	36.00	24,614.22	Not available

Number	Building name	Building area (m ²)	Net book value	Certificate
20	Guard room	24.00	14,890.51	Not available
21	Manufacturing workshop 501	627.80	3,062,269.58	Not available
22	Manufacturing workshop 502	708.90	2,290,816.01	Not available
23	Manufacturing work shop 503	1,039.50	2,552,545.55	Not available
24	Manufacturing work shop 504	141.10	337,470.71	Not available
25	Manufacturing workshop 505	37.80	163,030.81	Not available
26	Manufacturing workshop 506	94.50	359,062.74	Not available
27	Manufacturing workshop 507	56.70	299,974.76	Not available
28	Manufacturing workshop 508	567.00	1,234,075.19	Not available
29	Manufacturing workshop 509	399.30	750,905.05	Not available
30	704 warehouse	907.20	1,693,925.38	Not available
31	Maintenance workshop	399.54	753,609.52	Not available
32	Bath closet (1 factory)	529.20	868,093.12	Not available
33	Watch room	263.31	272,638.37	Not available
34	Power distribution room	210.00	238,138.89	Not available
35	Guard room	55.80	87,313.42	Not available
36	Toilet	62.70	130,588.92	Not available
37	(1 factory) garbage can warehouse	120.00	26,311.87	Not available
38	Booster charge 101 workshop	461.75	586,323.04	G00011-8
39	102 transit storage	18.49	14,700.45	G00011-6
40	103 transit storage	18.49	14,700.45	G00011-5
41	104 sewage treatment station	126.06	85,064.71	G00011-4
42	105 workshop	568.00	838,744.50	Not available
43	106 workshop	753.80	972,440.15	Not available
44	107 workshop	314.40	404,688.14	Not available
45	108 workshop	174.30	186,248.23	Not available
46	203 laboratory	272.66	187,036.95	G00011-3
47	Booster charge 301 workshop	1,008.73	967,293.68	G00011-1
48	Guard room	34.25	16,273.23	G00011-10
49	Power distribution room	61.20	51,404.60	G00011-9
50	Power distribution room	52.50	20,838.50	0011-F3
51	Toilet	47.03	17,904.85	11-(F1-F2)
52	Guard room	59.00	21,908.64	Not available
53	Bath room	209.63	116,969.87	G00009-7
54	Canteen	296.00	105,951.86	G00009-6
55	Office	261.30	182,407.90	G00009-1
56	Guard room	10.89	12,948.30	G00009-2
57	Small room (2 factory)	12.25	17,572.65	G00009-4
58	Boiler room (2 factory)	117.00	197,947.34	G00009-5
59	Boiler room	126.00	192,900.23	Not available
60	Production line room	9.00	6,614.81	G00011-7
61	Toilet	9.52	4,350.90	Not available
62	106 workshop toilet	31.00	39,613.52	Not available
63	East guard room	24.00	17,705.90	Not available
64	Canteen shop	868.86	89,108.76	Not available
65	Dormitory	274.56	236,019.75	G00009-3

Number	Building name	Building area (m ²)	Net book value	Certificate
66	Toilet before bathroom	41.35	25,136.89	09-(F1-F3)
67	Little house	5.00	3,941.20	Not available
68	(3 factory) 204 raw material processed	2,572.09	1,049,412.52	Not available
69	208 workshop (detonator)	78.00	49,702.69	Not available
70	204 workshop	1,006.00	998,988.18	Not available
71	204 workshop toilet	17.00	13,770.90	Not available
72	Explosion-proof room	5.00	2,315.19	Not available
73	Booster charge 201 workshop	1,000.44	1,364,905.68	G00011-2
74	601workshop	169.06	885,763.62	Not available
75	602workshop	302.40	768,185.53	Not available
76	603workshop	141.80	395,706.38	Not available
77	604workshop	75.60	189,000.50	Not available
78	605workshop	151.20	377,732.17	Not available
79	606workshop	231.57	521,008.63	Not available
80	201workshop west office	51.90	45,355.18	Not available
81	503workshop improvement		115,663.88	Included into No.23
82	New office for detonator	88.50	74,618.06	Not available
83	301workshop west office	76.40	55,563.16	Not available
84	Project of detonator office	157.50	87,140.43	Not available
85	Warehouse	29.40	14,868.44	Not available
86	Room	22.30	12,014.20	Not available
87	Toilet	34.00	43,889.34	Not available
	In total	21,040.68	30,497,851.55	
	Structures			
1	12# road of warehouse	4,120.00	184,828.03	
2	Explosion-proof wall of warehouse	139.50	150,004.35	
3	Explosion-proof wall of warehouse	1,700.00	1,809,102.26	
4	Explosion-proof wall of warehouse	330.50	350,160.55	
5	Fire-fighting pool	300.00	18,491.30	
6	Wall of pump room	76.00	13,961.09	
7	Wall	460.00	39,909.67	
8	Road	1,680.00	57,888.59	
9	Well of warehouse	1.00	28,650.29	
10	West well of warehouse	1.00	17,652.47	
11	Well of warehouse	1.00	112,605.35	
12	Cultivation room of warehouse	51.00	1,749.34	
13	Outside water supply	1.00	67,183.77	
14	Explosion-proof wall	400.00	595,662.05	
15	Wall	586.50	307,096.43	
16	Trench	1,560.00	130,575.37	
17	Cement court	4,600.00	388,062.59	
18	Lightning-protection	3.00	125,282.08	
19	Outside electric	1.00	123,415.65	
20	Greening	1.00	419,287.44	

Number	Building name	Building area (m ²)	Net book value	Certificate
21	Cement court (1 factory)	21,260.00	936,603.66	
22	Wall (1 factory)	2,680.00	520,335.36	
23	Outside water and electricity supply	1.00	408,572.13	
24	1 factory auto door	1.00	2,690.54	
25	1 factory booth	1.00	19,113.00	
26	Parking lot	4,267.00	283,616.87	
27	Heat pipe installation, third term	1.00	434,947.77	
28	Explosion-proof wall	183.00	267,263.00	
29	Explosion-proof wall	981.00	1,273,929.52	
30	Explosion-proof wall	247.00	324,273.58	
31	Explosion-proof wall	651.00	970,508.03	
32	Wall	539.00	700,445.07	
33	Road	3,837.20	174,670.19	
34	Wall	1,097.91	78,981.68	
35	Drain-pipe	56.00	4,096.82	
36	Trench	306.00	23,132.40	
37	Trench for cable	958.00	63,169.06	
38	West door	1.00	10,032.72	
39	Fence (2 factory)	482.00	51,945.39	
40	Pool	500.00	79,299.31	
41	South pool	9.04	1,217.15	
42	Cement court	5,935.06	284,554.99	
43	Wall	985.70	145,197.31	
44	Wall	2,293.31	177,846.19	
45	Trench	281.35	18,638.73	
46	Trench for cable	340.15	18,801.79	
47	Lightning-protection	1.00	10,246.96	
48	Cement hardening	8,294.20	265,772.41	
49	Wall	2,960.00	250,397.18	
50	Trench for cable	1.00	256,971.12	
51	Wall	1.00	55,901.12	
52	105,106 explosion-proof wall	34.65	22,549.63	
53	Fire passage	1.00	56,392.20	
54	Booth lighting	1.00	4,297.84	
55	Bulletin board	43.14	14,832.71	
56	Pool of boiler room	180.00	28,704.12	
57	Boiler room levelling	210.00	85,933.61	
58	Wall	410.00	63,709.72	
59	Road	1,950.00	128,438.08	
60	Wall	279.45	22,861.32	
61	2 factory well	1.00	32,350.22	
62	2 factory garage	133.00	11,126.11	
63	2 factory stone	1.00	9,907.48	
64	2 factory booth	2.00	35,345.20	
65	2 factory road	1,110.00	558,258.36	
66	2 factory pump room	36.00	93,905.68	

Number	Building name	Building area (m ²)	Net book value	Certificate
67	Laboratory place	2,500.00	72,546.03	
68	Construction of laboratory place	1.00	48,332.84	
69	Pipe installation, fourth term	1.00	127,045.73	
70	Overbridge and passage	81.00	94,773.19	
71	Construction and installation works	1.00 (set)	481,690.67	
72	Fishpond	2,000.00	62,162.33	
73	205 wall	1.00	13,819.25	
74	Wall	2,448.00	13,337.27	
75	Explosion-proof wall and works	35,000.00	2,547,328.19	
76	Pool and gutter	1.00 (set)	516,494.98	
77	Cement road	12,600.00	866,015.20	
	Structures in total	134,190.66	19,066,897.68	

Intangible assets—Land use right is as the follows:

No	Certificate	Location	Status	Year	Land condition	Area (m ²)	Book value (RMB)
1	No.163	Feixian feicheng changsheng village	Transfer (industrial)	50	Developed	6,022.69	400,832.28
2	No.184	Feixian feicheng	Transfer (industrial)	30	Developed	23,957.00	1,742,847.27
3	No.185	Feixian feicheng	Transfer (industrial)	50	Developed	26,358.15	2,099,396.77
4	No.186	Feixian zhutian kele village	Transfer (industrial)	30	Developed	30,933.16	2,250,400.23
5	No.218	Feixian zhutian kele village	Transfer (industrial)	50	Developed	13,261.90	1,056,336.23
6	No.219	Feixian feicheng	Transfer (industrial)	50	Developed	41,624.16	3,315,386.77
7	No.027	Feixian feicheng xi xin an	Collective land transfer (industrial)	30	Developed	79,136.00	7,893,812.60
8	No.029	Feixian feicheng tu long gou	Collective land transfer (industrial)	30	Developed	58,508.00	5,836,162.50
9	No.030	Feixian feicheng xi xin an	Collective land transfer (industrial)	30	Developed	74,034.00	7,384,824.95
10	No.031	Feixian feicheng tu long gou	Collective land transfer (industrial)	30	Developed	70,220.00	7,004,375.05
11	No.032	Feixian feicheng changsheng village	Collective land transfer (industrial)	30	Developed	14,981.00	1,494,324.95
	In total					439,036.06	40,478,699.60

The appraised real estate is in normal use or in control.

The above real estate is within the appraisal scope.

The lands of No.184, 185 and 218 owned by Yinguang Chemical Industry and building (G00011) on land No. 185 were mortgaged as security for the loan. The amount is RMB 6 million. Industrial and Commercial Bank of China of Feixian holds the land right now. Mortgage period is from July 28, 2009 to July 27, 2011.

4. Type of Value

The type of value for the conclusion is the market value.

The market value is for the appraised object: fair value of parts real estate of Yinguang Chemical Industry as of the appraisal date.

Market value is the estimated amount for which an asset should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently, and without compulsion.

- a. Willing buyer: buyer who is willing to buy without compulsion will take action reasonably according to the market condition.
- b. Willing seller: seller who is willing to sell without compulsion will take action reasonably according to the market condition, and sell the assets at the highest price in the open market after necessary marketing.
- c. The appraisal date: market price is the specific price at a specific time, reflecting the market condition at the appraisal date.
- d. Currency unit: market price for which an asset should exchange in an arm's-length transaction should express in the form of local currency.
- e. An arm's-length transaction: a transaction without special or related parties. A transaction is between parties who take action independently.
- f. Marketing: marketing should attract potential buyers in an appropriate way.
- g. Knowledgeable and prudent parties: willing buyer and willing seller both know the characteristics of the asset, current and potential usage, and market condition as of the appraisal date, and will make decision according to their own interests.

5. The Appraisal Date

To perform a better valuation, facilitate the transaction and select a date close to the

transaction date, consignor and the appraisal company agreed that the appraisal date is March 31, 2011, according to the current status of consignor and the appraised company.

All the price criterions in the report are based on the appraisal date.

6. The appraisal principle

The appraisal principle adjusts relationship among consignor, the target and other parties and regulates appraisal action. In accordance with the China state owned asset management regulation and relevant rules, the appraisal principles are as the following:

Independence—We adhere to the independence principle.

Objectivity—We adopt parameters according to solid facts, market data and scientific assumption.

Science—We adopt suitable value type and approaches according to the appraisal purpose to make appraisal result scientific.

Professionalism—Certified Public Valuers perform appraisal work to ensure the result to reflect the actual value of the appraised assets.

The applicable economic principles of appraisal are contribution principle, substitution principle, anticipation principle, and other principles. According to the contribution principle, we measure the importance of the single asset under the whole assets instead of independently. Experienced buyer always chooses lower price if the assets have the same function according to the substitution principle. The appraisal should forecast the profitability and capability reasonably according to the anticipation principle because the price at which willing buyer pays depends on the function of the asset in the future.

Other principles refer to the going concern principle and asset owners change principle. Going concern principle means that the appraised company will use the asset in the current way. Asset owners change principle assumes that the owners will partly or wholly change, and that the value of the asset is the amount for which the new owner would like to pay.

7. The appraisal standard

- (1) Appraisal standards---basic standards
- (2) Appraisal professional ethics standards
- (3) Enterprise value appraisal guide
- (4) Appraisal standards --- Engagement Letter

- (5) Appraisal standards ---Appraisal Procedures
- (6) Appraisal standards ---Appraisal Report
- (7) Appraisal standards ---Real Estate
- (8) Appraisal standards ---Work paper

The above standards are printed and issued by China Appraisal Society

8. The appraisal basis

8.1 Legal Basis

- (1) Company Law of P.R.C
- (2) Administration of state assets valuation issued by the State Council in code 91, 1991
- (3) Transfer of Notification of Asset Appraisal Procedures Opinions (Temporary) (GZBF(1996) No. 23), issued by State-owned Assets Supervision and Administration Commission.
- (4) Other relevant regulations and rules.

8.2 Action Basis

- (1) Engagement letter

8.3 Property right Basis

- (1) Business license and capital verification report.
- (2) Land use right (FGY (2001) No.163, FGY (2005) No.184, FGY (2005) No.185, FGY (2005) No.186, FGY (2005) No.218, FGY (2005) No.219, FGY (2007) No.027, FGY (2007) No.029, FGY (2007) No.030, FGY (2007) No.031, FGY (2007) No.032)
- (3) Building certificate (G00009, G00010, G00011)
- (4) Others relevant materials.

8.4 Pricing Basis

- (1) Financial statements, assets lists and other information provided by the appraised company;
- (2) Working records on the site-spot;
- (3) The deposit rate and loan rate, exchange rate published by People's Bank of China;
- (4) Land prices of Feixian;
- (5) Market inquiry cases collected by appraisers and other kinds of data which are related to the appraisal;

9. Approaches of Valuation

There are normally three approaches of valuation: Replacement cost approach, market approach and income present value approach.

The replacement cost approach refers to the method of determining the value of the

evaluated assets by deducting the value of various damages and spoilages from the present replacement cost of the evaluated assets when assets are evaluated.

The market approach refers to the method of determining the value of the evaluated assets by comparing the evaluated assets with similar assets which have been sold recently and making an adjustment to the market price of similar assets. The premise for applying this method is that there should be identical or similar cases of transactions and the nature of transaction should be fair and equitable.

The income approach refers to a valuation method of determining the value of the evaluated assets by estimating the future expected income of the evaluated assets and converting it to present value. The following two conditions must be met before the income approach is applied: One is that the evaluated assets must be a single-item asset or a complete set of assets whose future expected economic benefits can be measured with currency. The other is that the risks borne by the asset owners can be also be measured with currency.

There are no similar transaction cases of industrial buildings in recent periods in this region, so conditions to use the market approach to value the buildings cannot be met. Considering the principle of prudence, we did not choose the method of income. According to the purpose of this valuation and the characteristics of the target of valuation, we chose the replacement cost approach to value the buildings. There are comparable transactions of land use rights in the target district, so the market approach was applied to value the land-use right.

a. Replacement Cost Approach

Replacement unit price = Building installation project cost + Professional fees + Management fees + Capital cost + Profit

Appraisal value = Replacement unit price × Building area × Available rate

(1) Building installation project cost

We adopted data of Shandong Province Construction and Decoration Quota of Budget (2000) and construction price of comparable factory.

(2) Professional fees

Professional fees include plan, design, feasibility study, survey, bid, budget, audit, compile, temporary measure fees, etc. Usually, the professional fees rate range from 4% to 6%. Base quota is building installation project cost. We adopted 5% as the professional fees rate according to the status of the target.

(3) Management fees

Management fees rate range from 3% to 5% according to the social average standard.

Base quota is building installation project cost plus professional fees. We adopted 3% according to the status of the target.

(4) Capital cost

We assume that the construction period is one year and that building installation project cost and management fees are invested evenly. One year loan rate is 6.06% and professional fees are invested in advance.

(5) Profit

The appraised targets are for industrial usage. The profit rate is 12.1% according to the Enterprise Performance Evaluation Standard Data (2010) issued by Ministry of Finance.

Replacement unit price = Building installation project cost + Professional fees + Management fees + Capital cost + Profit

(6) Replacement value

Replacement value = Replacement unit price × Building area

(7) Available rate

The appraised targets are reinforced concrete structure workshops of industrial usage. The life of buildings are 50 years.

Comprehensive available rate = Life available rate × 50% + Technical available rate × 50%

The building appraisal value = Replacement value × Comprehensive available rate

b. Market Approach

Market approach is to get the final appraisal price of the land according to the recent market deal prices by comparing the dealing date, situation, deal mode, validation of the land, plot ratio, area and other factors. Land-transfer fee should be deducted from the collective land price.

The appraisal value = Price of comparable land × Transaction status adjustment × Transaction period adjustment × Location adjustment × Individual adjustment

10. Procedures of valuation

The valuation procedures includes acceptance of engagement, inspection of assets, assess and calculation, collection and making adjustment and submit the report and so on. The detailed steps are as follows:

1. Comprehend the consignor and the appraised enterprise about the appraisal purpose and other related information, undertake the commission from consignor, and determine the scope of valuation and appraisal date by discussing with the consignor. We make

commitments according to the engagement letter and decide the way of cooperation.

2. Organize the appraisal group, make initial draft about the plan of valuation, do the spot check, and seek the cooperation from the appraisal enterprise.

3. Instruct the appraised enterprise to examine, check and verify all the assets in the scope of appraisal, list the detail sheet of asset information and prepare to provide all kinds of information that the appraisers need.

4. Conduct the spot check in the appraised enterprise, learn about the history and current condition, and check the appraisal assets of the property right, costing and using, management, improvement and maintenance records. Then, check and verify the details and the quality of all the assets in the list provided by the appraised enterprises with the account details, finance data, and booking, take certification when necessary.

5. According to the purpose of appraisal, the specific condition of different appraised assets, choose correct methods and formula for appraisal, make market studies and relevant inquiries to get the appraisal value for different assets.

6. According to the appraisal result, analyze the program to prevent the deviation, repeated and omitted items and adjust the appraisal result to form the final appraisal explanation.

7. Draft the appraisal report based on the adjusted appraisal result. The final report is issued after the internal three-tier review and the feedback of the consignor and the appraised enterprises.

11. Appraisal Assumptions

Environment assumptions:

- a) There will be no significant change on related laws, regulations, and policies.
- b) There will be no significant change on social environment.
- c) There will be no significant change on loan rate.

The appraised assets usage assumption:

1. The appraised assets will be used in the current way, size, frequency and environment.

The appraised assets scope assumption:

1. The appraised assets held by the Company will contribute to business operation and will not be put into operations out of business scope.

The appraised assets function assumption:

1. The appraised assets will operate as before.

Other assumptions:

1. Appraisers did not take into account force majeure.

12. Valuation Conclusion

The net book value of real estate is RMB 90,043,448.83 as of March 31, 2011, the appraisal value is RMB 119,655,713.40, the appraisal increment is RMB 29,612,264.57, and the increment ratio is 32.89%.

Summary of Valuations

The appraisal date: March 31, 2011

MONETARY UNIT: RMB

ITEMS	NBV	Appraisal Value	Increase/Decrease	Increase/Decrease Ratio
	A	B	C=B-A	D=C/A
Buildings	49,564,749.23	64,675,413.40	15,110,664.17	30.49
Land	40,478,699.60	54,980,300.00	14,501,600.40	35.83
Real Estate	90,043,448.83	119,655,713.40	29,612,264.57	32.89

13. Significant events

(1) The lands of No.184, 185 and 218 owned by Yinguang Chemical Industry and building (G00011) on land No. 185 were mortgaged as security for the loan. The amount is RMB 6 million. Industrial and Commercial Bank of China of Feixian holds the land right now. Mortgage period is from July 28, 2009 to July 27, 2011.

(2) Buildings of 16,332.10 square meter of Yinguang Chemical Industry didn't apply for certificate. The building area data of the report are from Yinguang Chemical Industry.

(3) The report only provides a price reference for the appraisal purpose. Generally speaking, the asset will have different prices due to the different appraisal purpose, value type, and appraisal date.

(4) The appraisers will not take the responsibility for the potential risks affecting the enterprise value, if the consignor or appraised company does not outline the risks, and if appraisers do not know the risks according to the professional experience.

(5) We didn't audit the economic action document, business license, certificate, and accounting records provided by the appraised company, and will not take for the responsibility of the truth of the above documents.

14. Application Limit

- (1) The appraisal report is only for the purpose and usage prescribed in the report.
- (2) The content of appraisal report should not be reproduced in whole or in part by any other party on the public media without the permission of appraisal company, except the requirement of laws and regulations or agreement made by related parties.
- (3) The valid period of appraisal report is from March 31, 2011 to March 30, 2012.

15. Issued Date and Validity Period

The issued date of report is April 27, 2011.

SHANGHAI YINXIN HUIYE APPRAISAL CO., LTD.

Legal representative: Mei huimin

Chief Valuer: Zhang heping

Signing CPV: Xu yongmei

Chu yaming

April 27, 2011



APPENDIX

1. Copy of business licenses of consignor and the appraised company.
2. Land use right (FGY (2001) No.163, FGY (2005) No.184, FGY (2005) No.185, FGY (2005) No.186, FGY (2005) No.218, FGY (2005) No.219, FGY (2007) No.027, FGY (2007) No.029, FGY (2007) No.030, FGY (2007) No.031, FGY (2007) No.032), building certificate (G00009, G00010, G00011)
3. Commitment letter of consignor.
4. Commitment letter of the appraised company.
5. Commitment letter of the appraisal company and appraisers.
6. Copy of qualification of the appraisal company.
7. Copy of qualification of appraisers.
8. Copy of business license of the appraisal company.

**LETTER FROM PROVENANCE CAPITAL PTE. LTD.
TO THE INDEPENDENT DIRECTORS OF FABCHEM CHINA LIMITED**

PROVENANCE CAPITAL PTE. LTD.

(Company Registration Number: 200309056E)
(Incorporated in the Republic of Singapore)
96 Robinson Road #13-01 SIF Building
Singapore 068899

12 July 2011

To: The Directors of Fabchem China Limited
(deemed to be independent in respect of the Acquisition)

Dr. Lim Seck Yeow (Non-executive Chairman)
Mr Bao Hongwei (Executive Director)
Mr Peter Neville Hogan (Non-executive Director)
Mr Christopher Michael Furnell (Non-executive Director)
Mr Wee Phui Gam (Independent Director)
Mr Ong Tai Tiong Desmond (Independent Director)
Mr Jiang Rongguang (Independent Director)

Dear Sirs

**THE PROPOSED ACQUISITION OF THE PROPERTY (AS DEFINED HEREIN) BY A WHOLLY-OWNED
SUBSIDIARY OF FABCHEM CHINA LIMITED FROM AN INTERESTED PERSON**

Unless otherwise defined or the context otherwise requires, all terms used herein have the same meanings as defined in the circular to shareholders of the Company dated 12 July 2011 (the “Circular”).

1. INTRODUCTION

On 27 April 2011, the Directors of Fabchem China Limited (the “**Company**”) announced that the Company’s wholly-owned subsidiary, Shandong Yinguang Technology Co., Ltd. (the “**Purchaser**”), had 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 agreed, subject to the satisfaction or waiver of the conditions as set out in the Agreement, to acquire certain properties (the “**Property**”) located at Fei County, Linyi City, Shandong Province, the PRC (the “**Acquisition**”) at an agreed purchase price of RMB108.7 million (the “**Consideration**”). The Purchaser presently leases the Property from the Vendor (the “**Lease**”).

As at the Latest Practicable Date, an executive officer of the Company, Mr Sun Qiang, who is the son of the Managing Director and controlling shareholder of the Company, Mr Sun Bowen, has a 54.3% interest in Shandong Yinsheng Investments Co., Ltd (“**Yinsheng Investments**”). Yinsheng Investments in turn has a 61.24% equity interest in the Vendor. Accordingly, the Vendor is deemed to be an Associate of Mr Sun Bowen and the Acquisition is thus considered to be an Interested Person Transaction as defined in Chapter 9 of the SGX-ST Listing Manual (the “**Listing Manual**”). The Acquisition is also regarded as a major transaction pursuant to Rule 1014 of the Listing Manual.

The Consideration of RMB108.7 million represents 28.6% of the latest audited net tangible assets (“**NTA**”) of the Company and its subsidiaries (the “**Group**”) as at 31 March 2011. As the Consideration exceeds 5% of the Group’s latest audited NTA, pursuant to Rule 906 of the Listing Manual, the Acquisition is subject to the approval of the Company’s independent shareholders (the “**Independent Shareholders**”) at an extraordinary general meeting (the “**EGM**”) to be convened.

Provenance Capital Pte. Ltd. (“**Provenance Capital**”) has been appointed by the Company as the independent financial adviser to advise and render an opinion to the directors of the Company who are deemed to be independent in respect of the Acquisition (the “**Independent Directors**”) on whether the financial terms of the Acquisition are on normal commercial terms and are not prejudicial to the interests of the Company and the Independent Shareholders. Save for Mr Sun Bowen who is deemed interested in the Acquisition, the rest of the directors of the Company (the “**Directors**”) are deemed to be Independent Directors.

This letter (“**Letter**”) sets out, *inter alia*, our evaluation of the Acquisition and our advice to the Independent Directors in relation to their recommendation to the Independent Shareholders on the Acquisition, and forms part of the Circular providing, *inter alia*, details of the Acquisition, and the recommendation of the Independent Directors thereof.

2. TERMS OF REFERENCE

The objective of this Letter is to provide an independent opinion on whether the Acquisition is on normal commercial terms and is not prejudicial to the interests of the Company and the Independent Shareholders.

The scope of our appointment does not require us to express, and we do not express, any view on the future growth prospects, financial position and earnings potential of the Group. Such evaluation or comments remain the responsibility of the Directors although we may draw upon their views or make such comments in respect thereof (to the extent deemed necessary or appropriate by us) in arriving at our opinion. The opinion set forth herein is based solely on publicly available information as well as information provided by the Directors, and is predicated upon the economic and market conditions prevailing as at 30 June 2011 (the “**Latest Practicable Date**”). This Letter therefore does not reflect any projections on the future financial performance of the Group in the event that the Acquisition is completed.

In formulating our opinion, we have relied to a considerable extent on the information set out in the Circular and the information, representations, opinions, facts and statements provided to us, whether written or verbal, by the Company and/or the management of the Company (the “**Management**”) and its professional advisers. We have also relied upon the responsibility statement of the Directors (including those who may have delegated detailed supervision of the preparation of the Circular) and the Vendor (in respect of information on the Property as applicable) as set out in Section 13 of the Circular that they collectively and individually accept responsibility for the accuracy of the information given in the Circular and they confirm that having made all reasonable enquiries and to the best of their knowledge and belief, the facts stated and opinions expressed in the Circular are fair and accurate in all material respects and that there are no material facts the omission of which would make any statement in the Circular misleading in any material respect.

Nothing has come to our attention and we have found no reason to doubt the accuracy and reliability of the information provided to us. Whilst we have made reasonable enquiries and exercised our judgement on the reasonable use of such information to the best of our knowledge and belief, we do not accept any responsibility for the accuracy, completeness or adequacy of such information which remains the responsibility of the Directors.

We have not made any independent evaluation or appraisal of the assets and liabilities of the Group and we have not been furnished with any such evaluation or appraisal except for a valuation report for the Property on which we have placed sole reliance on for such asset appraisals. With respect to such a valuation report, we are not experts and do not hold ourselves to be experts in the evaluation of the Property and we have relied upon the valuation report of the Property prepared by Shanghai Yinxin Huiye Appraisal Co., Ltd., an independent valuation firm appointed by the Group (the “**Independent Valuer**”). The valuation report for the Property dated 27 April 2011 (the “**Valuation Report**”) is set out in Appendix A of the Circular. We have not relied on any financial projections or forecasts in respect of the Group for the purpose of our evaluation of the Acquisition.

Our view as set out in this Letter is based upon market, economic, industry, monetary and other conditions (if applicable) prevailing as at the Latest Practicable Date and may change significantly over a relatively short period of time. We assume no responsibility to update, revise or reaffirm our opinion or assumptions in light of any subsequent development after the Latest Practicable Date that may affect our opinion or assumptions contained herein.

In rendering our advice, we did not have regard to the specific investment objectives, financial situation, tax position, risk profiles or unique needs and constraints of any Independent Shareholder or any specific group of the Independent Shareholders. As each Independent Shareholder would have different investment objectives and profiles, we recommend that any individual Independent Shareholder or group of the Independent Shareholders who may require specific advice in relation to his or their investment portfolio(s) or objective(s) consult his or their stockbroker, bank manager, solicitor, accountant, tax adviser or other professional adviser immediately.

The Company has been separately advised by its own professional advisers in the preparation of the Circular (other than this Letter). We have had no role or involvement and have not and will not provide any advice (financial or otherwise) in the preparation, review and verification of the Circular (other than this Letter). Accordingly, we take no responsibility for and express no views, whether express or implied, on the contents of the Circular (other than this Letter).

Whilst a copy of this Letter may be reproduced in the Circular, neither the Company nor the Directors may reproduce, disseminate or quote this Letter (or any part thereof) for any purposes other than for the purposes of the Shareholders’ resolution in relation to the Acquisition at any time and in any manner without the prior written consent of Provenance Capital in each specific case.

We have prepared this Letter for the use of the Independent Directors in connection with their consideration of the Acquisition and their advice to the Independent Shareholders arising thereof. The recommendations made to the Independent Shareholders in relation to the Acquisition remains the sole responsibility of the Independent Directors.

Our opinion in relation to the Acquisition, as set out in Section 9 of the Circular, should be considered in the context of the entirety of this Letter and the Circular.

3. DETAILS OF THE ACQUISITION

The Property comprises (i) land use rights with a total land area of 439,036.06 sq m (the “**Land**”), (ii) all the buildings situated thereon with a total build-in area of 21,040.68 sq m (the “**Buildings**”), together with (iii) all ancillary structures, fixtures and fittings (the “**Structures**”). The Property is located at Fei County, Linyi City, Shandong Province, the PRC, where the Group’s manufacturing facilities and warehouses (for the manufacture of the Group’s initiation systems products) are located. The Purchaser has been leasing the Property from the Vendor since 16 November 2004.

The Group’s other manufacturing sites are located at (i) Linxi County, Hebei Province for the manufacture of the Group’s ammonium nitrate and (ii) Shanting District, Zaozhuang City, Shandong Province for the manufacture of seismic charges.

In 2007, the Purchaser was granted an option (the “**Option**”) to acquire the Property from the Vendor for the Consideration of RMB 108.7 million. The Purchaser has exercised the Option to purchase the Property and pursuant thereto, executed the Agreement on 26 April 2011 with the Vendor. In the exercise of the Option, the Purchaser had taken into account, *inter alia*, the potential rental increase of the Property. With the prevalent increase of property prices in the PRC, exercising the Option to acquire the Property may allow the Group to avoid any likely future rental increment due to higher property prices. Further, in exercising the Option, the Purchaser had also considered the commercial terms (including payment mechanism of the Consideration) of the Acquisition and the Group’s current financial position. The latter includes the Group’s current cash on hand, the potential revenues and operating cash flow from existing and new business projects and potential capital requirements in the near future.

The details of the Acquisition are set out in Section 2 of the Circular, and we recommend that the Independent Directors advise the Independent Shareholders to read the details of the Acquisition contained in the Circular carefully. A summary of the key terms of the Acquisition is as follows:

3.1 Consideration

The Consideration of RMB108.7 million for the Acquisition is the agreed purchase price as set out in the Option and was arrived at on a willing buyer-willing seller basis, based on the Vendor’s cost of investments for the Property (i.e. the Vendor’s historical costs of acquiring the Property) which in aggregate amounts to the Consideration.

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

- (a) RMB 38.7 million of the Consideration (the “**Tranche I Consideration**”) will be satisfied by means of cash payment using the Group’s internally generated funds in six milestones as set out below:

Payment Schedule	Amount (RMB million)
Within 7 business days after signing the Agreement	1.0
After obtaining approval from the Independent Shareholders for the Acquisition at the EGM to be convened (the “ Shareholders’ Approval ”)	9.0
6 months after Shareholders’ Approval	5.0
12 months after Shareholders’ Approval	10.0
24 months after Shareholders’ Approval	5.0
After the date on which all the relevant ownership titles of the Property (comprising both land use rights and building ownership certificates) (collectively, the “ Titles ”) have been legally and validly transferred to or obtained by the Purchaser	8.7
	38.7

If the Shareholders’ Approval at the EGM to be convened is not obtained for any reason whatsoever, the Agreement shall automatically terminate and the abovementioned first milestone of the Tranche I Consideration (being RMB1.0 million) paid by the Purchaser, shall be refunded by the Vendor to the Purchaser 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 the parties may agree in writing. In this event, the Vendor shall also bear all the costs incurred by the Purchaser for the Acquisition.

Notwithstanding the above milestones, provided that the Purchaser has validly and legally obtained all the Titles before the end of 24 months after the date of the Shareholders' Approval, the Purchaser shall pay the Tranche I Consideration of RMB 38.7 million less amounts which have already been paid to the Vendor, within one (1) month after the date of obtaining all the Titles.

- (b) The balance of the Consideration amounts to RMB70 million (the "**Tranche II Consideration**"). The Purchaser will apply for bank loans of RMB70 million in aggregate (collectively, the "**Bank Loan**") to be secured by the Property that will be transferred from the Vendor and shall pay to the Vendor the Tranche II Consideration as and when the Bank Loan is received. The Vendor agrees that the Purchaser will only be liable to pay the Tranche II Consideration to the Vendor upon the Purchaser receiving the proceeds of the Bank Loan. The Purchaser shall apply for the Bank Loan as soon as practicably and reasonably possible after obtaining all Titles and becoming the legal and valid owner of the Property. The Vendor has agreed that there is no deadline by which the Bank Loan must be procured by the Purchaser and that no interest will be imposed on the deferred payment of the Tranche II Consideration.

In the event that the Purchaser is unable to obtain the Bank Loan for the full amount of RMB70 million, the Vendor agrees that the Purchaser shall pay the shortfall amount of the Bank Loan (the "**Tranche II Shortfall**") as follows:

Amount of Tranche II Shortfall	Time of payment of Tranche II Shortfall (from date of disbursement of last Bank Loan obtained)
Less than RMB10 million	Within 24 months
Between RMB10 million and RMB30 million	Within 48 months
Between RMB30 million and RMB50 million	Within 72 months
Between RMB50 million and RMB70 million	Within 96 months

The above deferred instalment payment is to ensure that the Purchaser's cashflow is not over-stretched if it is unable to obtain the full RMB70 million of Bank 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.

3.2 Other material terms and conditions

- (a) If any of the Titles 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 (the "**Completion Date**"), the Agreement shall automatically terminate and all the Consideration paid by the Purchaser as aforesaid 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 or such later date as the parties may agree in writing. The Vendor shall also bear all the losses and costs incurred by the Purchaser for the Acquisition. In addition, Mr Sun Bowen has provided to the Purchaser a personal guarantee on 17 May 2011 to, *inter alia*, guarantee the full refund of all Consideration paid by the Purchaser as aforesaid.

- (b) The Vendor and the Purchaser agree that the rental payable under the Lease shall be payable up to and including one calendar month prior to the calendar month in which the EGM will be held to obtain the Shareholders' Approval and shall not be payable thereafter. The said parties further agree that the Lease in respect of the Property shall cease on the Completion Date. However, in the event that all the Titles 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 arrangements 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 the 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 directly in the name of the Purchaser) with the relevant land and building authorities upon execution of the Agreement. As at the date of the Circular, such ownership alteration registration of the Property has commenced.
- (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.
- (e) The Vendor has not obtained certain relevant building ownership certificates in respect of the Property as at the date of the Agreement. The Company understands from the Vendor that the application and issuance of such building ownership certificates would require payment of the related governmental fees and duties. Upon the transfer of these building ownership certificates to the Purchaser pursuant to the acquisition of the Property by the Purchaser, a separate set of governmental fees and duties will also have to be paid. To avoid the duplication of such costs, it was the intention of the Vendor to commence application for the issuance of such building ownership certificates directly in the name of the Purchaser upon the latter exercising the Option and signing the Agreement. As at the date of the Circular, application for issuance of the relevant building ownership certificates has commenced.

3.3 Conditions Precedent

- (a) The completion of the Acquisition will be subject to the fulfilment or waiver of, *inter alia*, the following conditions precedent:
 - (i) each party has obtained the requisite written approval from its board of directors or shareholder(s) for the execution and the completion of the Acquisition, including but not limited to the approval of the Independent Shareholders at an EGM to be convened;
 - (ii) all approvals, consents and registration in relation to the 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 (including but not limited to the ownership alteration registration from Fei County Bureau of Land Resources and Fei County Building Administrative Bureau, which as at the Latest Practicable Date have not been obtained) 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;

- (iii) 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 in respect of the Property which have not been obtained prior to the date of the Agreement as referred to in Section 2.7 of the Circular);
 - (iv) 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;
 - (v) 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; and
 - (vi) 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 that 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.

4. INFORMATION ON THE PROPERTY

Salient information on the Property is set out in Section 5 of the Circular. We recommend that the Independent Directors advise the Independent Shareholders to read this section of the Circular carefully.

5. EVALUATION OF THE ACQUISITION

In evaluating and assessing the financial terms of the Acquisition, we have taken into account the pertinent factors set out below which we consider to have a significant bearing on our assessment:

- (a) rationale for the Acquisition;
- (b) valuation of the Property by the Independent Valuer;
- (c) financial effects of the Acquisition; and
- (d) other relevant considerations.

5.1 Rationale for the Acquisition

It is not within our terms of reference to comment or express an opinion on the merits of the Acquisition or the future prospects of the Group after the Acquisition. Nevertheless, we have reviewed the rationale for the Acquisition as set out in Section 6 of the Circular, and reproduced in italics below for your reference.

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

The Property will provide a permanent operation base for the Group

The 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. Most of the relevant facilities required for the Group's current operations in Fei County are located within the Property. The 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 Consideration is at a discount to the market valuation of the Property

The Consideration is determined based on the costs of investment incurred by the Vendor, and is approximately 9.2% lower than the market valuation as referred to in section 5.4 above.

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

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

5.2 Valuation of the Property by the Independent Valuer

Shanghai Yinxin Huiye Appraisal Co., Ltd., the Independent Valuer, had been commissioned by the Group to undertake an independent valuation of the Property. For more details of the independent valuation conducted by the Independent Valuer, please refer to the Valuation Report as set out in Appendix A of the Circular.

The valuation of the Property, as determined by the Independent Valuer, had been undertaken on a market value basis as at 31 March 2011 (the "**Market Value**"). Market Value is the estimated amount for which an asset should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

(a) Valuation Methodology

In arriving at the Market Value of the Property, the Independent Valuer had considered three approaches of valuation: replacement cost approach, market approach and income approach.

The replacement cost approach refers to the method of determining the value of the evaluated assets by deducting the value of various damage and spoilage from the present replacement cost of the evaluated assets when assets are evaluated.

The market approach refers to the method of determining the value of the evaluated assets by comparing the evaluated assets with similar assets which have been sold recently and making an adjustment to the market price of similar assets. The premise for applying this method is that there should be identical or similar cases of transactions and the nature of transaction should be fair and equitable.

The income approach refers to a valuation method of determining the value of the evaluated assets by estimating the future expected income of the evaluated assets and converting it to present value. The following two conditions must be met before the income approach is applied: One is that the evaluated assets must be a single-item asset or a complete set of assets whose future expected economic benefits can be measured with currency. The other is that the risks borne by the asset owners can also be measured with currency.

The Independent Valuer has not identified similar transaction cases of industrial buildings in recent periods in the target region, so conditions to use the market approach to value the Buildings and Structures cannot be met. Considering the principle of prudence, the Independent Valuer did not choose the income approach to value the Land, Buildings or Structures.

Accordingly, in view of the purpose of the valuation and the characteristics of the target of valuation, the Independent Valuer chose the replacement cost approach to value the Buildings and Structures, and the market approach to value the Land as there are comparable transactions of land use rights in the target district.

(b) Analysis of independent valuation of the Property

Based on the Valuation Report, the aggregate Market Value of the Property is RMB119,655,713 as detailed below:

RMB'000	Net Book Value as at 31 March 2011	Market Value as at 31 March 2011	Excess of Market Value over Net Book Value
Buildings and Structures	49,565	64,675	15,111
Land	40,479	54,980	14,502
The Property	90,043	119,656	29,612

Note:

Discrepancies in the table above between the amounts listed and the totals thereof are due to rounding.

As the Acquisition relates to the acquisition of real property in cash, in accordance with Chapter 9 of the Listing Manual, an independent professional valuation is required to support the purchase consideration. In this regard, we note that the Consideration of RMB108.7 million for the Acquisition represents a discount of RMB10.96 million or 9.2% to the Market Value of the Property and is therefore favourable to the Company.

We note that the Consideration represents a 20.7% premium over the net book value of the Property. As the Property which comprises land, building and structures are real properties, it is reasonable to evaluate the Consideration against the revalued net book value of the Property which is determined by the Market Value of the Property as set out above.

5.3 Financial effects of the Acquisition

The proforma financial effects of the Acquisition, as set out in Section 7 of the Circular, are based on the latest audited financial statements of the Group for the year ended 31 March 2011 (“FY2011”) and the assumptions set out thereof. We wish to highlight that the proforma financial effects are for illustrative purposes only and do not reflect the actual future financial position of the Group after the completion of the Acquisition.

From the proforma financial effects, in summary, we noted the following in respect of the Acquisition:

- (i) there will not be any impact on the share capital base of the Company as the Consideration will be payable in cash and bank loans;
- (ii) the earnings per share (“EPS”) of the Group for FY2011 will reduce slightly by 0.47 RMB cents, or 3.1%, after the Acquisition. This is mainly due to non-recurring expenses of approximately RMB0.6 million incurred in connection with the Acquisition, and the Annual Recurring Expenses (as defined below) in excess of the current rental expenses.

We understand from the Company that the annual loan interest, depreciation expenses and land use and property tax expenses (the “**Annual Recurring Expenses**”) in relation to the Property after the Acquisition is estimated to be approximately RMB 8.5 million, as compared with the current annual rental expenses of RMB 8.0 million for the Property payable by the Group to the Vendor.

However, we wish to highlight that pursuant to the lease agreement dated 15 November 2007 entered into between the Vendor and the Purchaser in respect of the lease of the Property (the “**Lease Agreement**”), in the event that the Purchaser renews the Lease Agreement from 15 November 2010 to 14 November 2012, the annual rental rate may be increased from the current rate of RMB8.0 million to an annual rental rate of up to RMB8.8 million for the period from 15 November 2010 to 14 November 2011, and may be increased further to up to RMB9.6 million for the period from 15 November 2011 to 14 November 2012. As such, despite the slight decrease in the EPS of the Group attributable to the Annual Recurring Expenses as shown in the proforma financial effects, the Group expects the Acquisition to result in potential cost savings going forward and the Acquisition provides certainty of longer term usage of the Property by the Group;

- (iii) the NTA per Share of the Group as at 31 March 2011 will remain unchanged at 162.52 RMB cents; and
- (iv) the total debt of the Group (defined as loans from banks and financial institutions) will increase from RMB25.0 million to RMB95.0 million, and the gross gearing ratio will increase from 6.5% to 24.6%, due to the Bank Loan to be procured by the Group for the Tranche II Consideration.

5.4 Other relevant considerations

(a) Partial payment of the Consideration prior to receipt of Titles

We note that pursuant to the payment milestones of the Consideration in paragraph 3 of this Letter, the Purchaser will be liable to pay up to an aggregate of RMB30.0 million, representing 27.6% of the Consideration, to the Vendor prior to all the Titles being legally and validly transferred to or obtained by the Purchaser. Furthermore, the Vendor currently does not possess Titles for certain of the Buildings with an aggregate build-in area of 16,332.10 sq m (the “**Buildings without Titles**”), representing 77.6% of the total build-in area of the Buildings. We understand that the Vendor currently possess all relevant Titles for the Land, whereas generally, Titles will not be issued for the Structures specifically.

We understand that the Directors are of the view that the partial payment of the Consideration to the Vendor prior to the Purchaser having legally and validly obtained all the Titles, are not unreasonable based on the following factors and in the context of the terms of the Agreement:

- (i) If any of the Titles cannot be transferred to or obtained by the Purchaser for any reason whatsoever on or before the Completion Date, the Agreement shall automatically terminate and all the Consideration paid by the Purchaser shall be refunded in full within 30 days after the Completion Date or such later date as the parties may agree in writing. In addition, the Vendor will be liable to pay interests (equivalent to the then prevailing loan interest rate of the People’s Bank of China) to the Purchaser. The Vendor shall also bear all the losses and costs incurred by the Purchaser for the Acquisition. In addition, Mr Sun Bowen has provided to the Purchaser a personal guarantee on 17 May 2011 to, *inter alia*, guarantee the full refund of all Consideration paid by the Purchaser as aforesaid;

- (ii) Based on discussions between the Company (represented by the Management and Mr Bao Hongwei who is an Executive Director who is deemed independent with respect to the Acquisition (the “**Independent Executive Director**”)) and the relevant PRC authorities with regards to the Purchaser’s application for ownership titles for the Buildings without Titles, the Independent Executive Director and the Management are optimistic that the Titles can be legally and validly obtained by the Purchaser within or around the timeframe of 24 months after the Shareholders’ Approval;
- (iii) The maximum amount of the Consideration payable to the Vendor prior to all the Titles being obtained by the Purchaser represents 27.6% of the Consideration and is spread over a period of 24 months after the Shareholders’ Approval;
- (iv) The Tranche II Consideration amounting to RMB70.0 million representing 64.4% of the total Consideration shall be payable only upon the Purchaser obtaining the Bank Loan, which is after the Titles are obtained, and the Vendor has agreed that there is no deadline by which the Bank Loan must be procured by the Purchaser. Furthermore, no interest will be imposed on the Purchaser for the deferred payment of the Tranche II Consideration. In addition, the Vendor has agreed that the Tranche II Shortfall will be payable by the Purchaser in instalments over a period of up to 8 years from the date of disbursement of the Bank Loan; and
- (v) In the event the Acquisition is completed, the Purchaser is not required to pay rental to the Vendor from the calendar month of the Shareholders’ Approval, notwithstanding that the Vendor may still be the legal owner of the Property prior to all the Titles being transferred to or obtained by the Purchaser.

(b) Audit Committee’s review

We also note that the Audit Committee of the Company will be reviewing on a quarterly basis, the progress of the Purchaser’s applications to transfer or obtain all the Titles (including but not limited to the relevant building ownership certificates which have not been obtained prior to the date of the Agreement), and the Company will be providing status updates of such progress in its annual reports.

(c) Increase in rental rates pursuant to the Lease Agreement

Under the Lease Agreement entered into between the Vendor and the Purchaser in November 2007 in respect of the lease of the Property, the term of the lease shall be valid from 15 November 2007 to 14 November 2010 and the Purchaser is entitled, at its sole discretion, to renew the Lease Agreement for a further 2 years till 14 November 2012.

We note that in accordance with the Lease Agreement, the annual rental rate for the Property may be increased from the current rate of RMB8.0 million to up to RMB8.8 million for the period from 15 November 2010 to 14 November 2011, and may be increased further to up to RMB9.6 million for the period from 15 November 2011 to 14 November 2012. In comparison, the Annual Recurring Expenses to be incurred by the Purchaser in relation to the Property after the Acquisition is estimated to amount to approximately RMB8.5 million, which is lower than the abovementioned rental rates going forward.

Hence, upon the completion of the Acquisition, the Group will be sheltered from any future unexpected fluctuations of rental expenses associated with the leasing of the Property from the Vendor. Furthermore, with the prevalent increase of property prices in the PRC, the Directors are of the opinion that the Acquisition at the current juncture can negate future rental increment due to higher property prices. The Acquisition also provides certainty of longer term usage of the Property by the Group.

(d) Risk factors relating to the Acquisition

The risk factors relating to the Acquisition are set out in Section 5.3 of the Circular. We recommend that the Independent Directors advise the Independent Shareholders to read this section of the Circular carefully.

6. OUR OPINION

In arriving at our opinion, we have taken into account the following key considerations which we consider to be pertinent in our assessment of the Acquisition:

- (a) rationale for the Acquisition;
- (b) valuation of the Property by the Independent Valuer;
- (c) financial effects of the Acquisition; and
- (d) other relevant considerations.

Having considered all of the above, we are of the view that the financial terms of the Acquisition are on normal commercial terms and are not prejudicial to the interests of the Company and the Independent Shareholders.

Our opinion, as disclosed in this Letter, is based solely on the information provided by the Directors and the Management and therefore does not reflect any projections of future financial performance of the Group after the completion of the Acquisition. In addition, our opinion is based on the economic and market conditions prevailing as at the Latest Practicable Date and is solely confined to our views on the Acquisition.

Our opinion is addressed to the Independent Directors for their benefit and for the purpose of their consideration of the Acquisition. The recommendation to be made by them to the Independent Shareholders shall remain the sole responsibility of the Independent Directors. Whilst a copy of this Letter may be reproduced in the Circular, neither the Company nor the Directors may reproduce, disseminate or quote this Letter (or any part thereof) for any other purpose other than for the purpose of the EGM and for the purpose of the Acquisition, at any time and in any manner without the prior written consent of Provenance Capital in each specific case.

Our opinion is governed by, and construed in accordance with, the laws of Singapore, and is strictly limited to the matters stated herein and does not apply by implication to any other matter. Nothing herein shall confer or be deemed or is intended to confer any right of benefit to any third party and the Contracts (Rights of Third Parties) Act, Chapter 53B of Singapore and any amendments thereto shall not apply.

Yours faithfully
For and on behalf of
PROVENANCE CAPITAL PTE. LTD.

Wong Bee Eng
Chief Executive Officer

Soo Hsin Yu
Associate Director

FABCHEM CHINA LIMITED

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

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an Extraordinary General Meeting (“**EGM**”) of Fabchem China Limited (the “**Company**”) will be convened on 28 July 2011 at 10.30 a.m. at 39 Fishery Port Road, Jurong, Singapore 619745 (or immediately after the conclusion of the Annual General Meeting scheduled at 9.30 a.m. on the same day and at the same place), for the purpose of considering and, if thought fit, passing with or without any modifications the following resolution:

ORDINARY RESOLUTION

RESOLVED THAT:

THE PROPOSED ACQUISITION OF THE PROPERTY BY THE WHOLLY-OWNED SUBSIDIARY OF THE COMPANY FROM AN INTERESTED PERSON

- (a) approval be and is hereby given for the proposed acquisition of the Property by Shandong Yinguang Technology Co., Ltd., a wholly-owned subsidiary of the Company, from Shandong Yinguang Chemical Industry Co., Ltd.; and
- (b) the directors of the Company and each of them be and are hereby authorised to take such steps and exercise such discretion and do all such acts and things as they or he may deem desirable, necessary or expedient to give effect to the matters referred to in paragraph (a) above including, without limitation, to negotiate, execute and authorize the release of, in the name of and on behalf of the Company, all such agreements, deeds, undertakings, forms, circulars, announcements, instruments, notices, communications and other documents and things, and to approve any amendment, alteration or modification to any such document.

By Order of the Board

Tan Min-Li
Company Secretary

12 July 2011

Notes: -

- (a) Every shareholder of the Company entitled to attend and vote at the Extraordinary General Meeting is entitled to appoint not more than two proxies to attend and vote on his behalf. A proxy need not be a shareholder of the Company.
- (b) A shareholder of the Company which is a corporation is entitled to appoint its authorised representative or proxies to vote on its behalf.
- (c) The instrument appointing a proxy must be deposited at the registered office of the Company at 8 Cross Street #11-00 PWC Building Singapore 048424 at least 48 hours before the time set for the Extraordinary General Meeting or any postponement or adjournment thereof.

FABCHEM CHINA LIMITED

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

IMPORTANT:

1. For investors who have used their CPF monies to buy the Company's shares, this Circular is forwarded to them at the request of their CPF Approved Nominees and is sent solely FOR INFORMATION ONLY.
2. This Proxy Form is not valid for use by CPF Investors and shall be ineffective for all intends and purposes if used or purported to be used by them.
3. CPF Investors who wish to attend the Extraordinary General Meeting as OBSERVERS have to submit their requests through their respective Agent Banks so that their Agent Banks may register with the Company Secretary of Fabchem China Limited.

PROXY FORM

I/We _____ (Name and NRIC/Passport No.)

of _____ (Address)

being a shareholder of **FABCHEM CHINA LIMITED** (the "Company") hereby appoint:-

Name	Address	NRIC/ Passport No.	Number of Shares Represented

and/or (delete as appropriate)

Name	Address	NRIC/ Passport No.	Number of Shares Represented

or failing him/her, the Chairman of the Meeting as my/our proxy/proxies to vote for me/us on my/our behalf and, if necessary, to demand a poll at the Extraordinary General Meeting of the Company to be convened on 28 July 2011 at 10.30 a.m. at 39 Fishery Port Road, Jurong, Singapore 619745 (or immediately after the conclusion of the Annual General Meeting scheduled at 9.30 a.m. on the same day and at the same place), and at any adjournment thereof. I/We direct my/our proxy/ proxies to vote for or against the Ordinary Resolution to be proposed at the Extraordinary General Meeting as indicated hereunder. If no specific direction as to voting is given, the proxy/proxies will vote or abstain from voting at his/her/their discretion, as he/she/they will on any other matter arising at the Extraordinary General Meeting. The authority herein includes the right to demand or to join in demanding a poll and to vote on a poll.

Ordinary Resolution	For*	Against*
The proposed acquisition of the Property by Shandong Yinguang Technology Co., Ltd., a wholly-owned subsidiary of the Company from Shandong Yinguang Chemical Industry Co., Ltd.		

* Please indicate your vote "For" or "Against" with an "x" within the box provided.

Dated this _____ day of _____ 2011.

Number of Shares held

Signature(s) of Member(s)/Common Seal of Corporate Shareholder



IMPORTANT PLEASE READ NOTES OVERLEAF BEFORE COMPLETING THIS PROXY FORM

Notes:-

1. A shareholder of the Company entitled to attend and vote at the Extraordinary General Meeting is entitled to appoint one or two proxies to attend and vote in his/her stead. A proxy need not be a shareholder of the Company.
2. Where a shareholder of the Company appoints more than one proxy, the appointments shall be invalid unless he specifies the proportion of his/her shareholding (expressed as a percentage of the whole) to be represented by each proxy.
3. A shareholder of the Company should insert the total number of shares held. If the shareholder of the Company has shares entered against his/her name in the Depository Register (as defined in Section 130A of the Companies Act, Cap. 50 of Singapore), he/she should insert that number of shares. If the shareholder of the Company has shares registered in his/her name in the Register of Members of the Company, he/ she should insert that number of shares. If the shareholder of the Company has shares entered against his/her name in the Depository Register and registered in his/her name in the Register of Members, he/she should insert the aggregate number of shares. If no number is inserted, the instrument appointing a proxy or proxies will be deemed to relate to all shares held by the shareholder of the Company.
4. The instrument appointing a proxy or proxies must be deposited at the registered office of the Company located at 8 Cross Street #11-00 PWC Building Singapore 048424 not less than 48 hours before the time set for the Extraordinary General Meeting.
5. The instrument appointing a proxy or proxies must be under the hand of the appointor or by his/her attorney duly authorised in writing. Where the instrument appointing a proxy or proxies is executed by a corporation, it must be executed either under its common seal or under the hand of its attorney or a duly authorised officer.
6. Where an instrument appointing a proxy or proxies is signed on behalf of the appointor by an attorney, the letter or power of attorney or a duly certified true copy thereof must (failing previous registration with the Company) be lodged with the instrument of proxy, failing which the instrument may be treated as invalid.
7. A corporation which is a shareholder of the Company may, in accordance with Section 179 of the Companies Act, Cap. 50 of Singapore, authorise by resolution of its directors or other governing body such person as it thinks fit to act as its representative at the Extraordinary General Meeting.
8. The Company shall be entitled to reject the instrument appointing a proxy or proxies, if it is incomplete, improperly completed, illegible or where the true intentions of the appointor are not ascertainable from the instructions of the appointor specified on the instrument appointing a proxy or proxies. In addition, in the case of shares entered in the Depository Register, the Company may reject any instrument appointing a proxy or proxies if a shareholder of the Company, being the appointor, is not shown to have shares entered against his/her name in the Depository Register as at 48 hours before the time appointed for holding the Extraordinary General Meeting, as certified by the Central Depository (Pte) Limited to the Company.