

FABCHEM CHINA LIMITED

(Company Registration Number: 200413128G)

(The “Company”)

THE PROPOSED DISPOSAL OF THE ENTIRE EQUITY INTEREST IN HEBEI YINGUANG CHEMICAL CO., LTD. BY A WHOLLY-OWNED SUBSIDIARY OF THE COMPANY

1. INTRODUCTION

The board of directors (the “**Board**” or the “**Directors**”) of Fabchem China Limited (the “**Company**”) and together with its subsidiaries (the “**Group**”) wishes to announce that the Company’s wholly-owned subsidiary, Shandong Yinguang Technology Co., Ltd. (the “**Vendor**”) has on 16 June 2016 entered into an equity purchase agreement (“**EPA**”) with Wang Jian (the “**Purchaser**”), in relation to the proposed disposal of the entire equity interest in Hebei Yinguang Chemical Co., Ltd. (“**HBYG**”) (the “**Proposed Disposal**”).

2. BACKGROUND AND RATIONALE FOR THE PROPOSED DISPOSAL

- 2.1 HBYG was acquired by the Company in 2008 and the principal activity of HBYG relates to manufacturing of ammonium nitrate.
- 2.2 HBYG requires substantial financial support from the Vendor and/or the Company in order to continue its operations. As at the date of this announcement, a total of approximately RMB 32.7 million in the form of loans was extended to HBYG (the “**Shareholder’s Loan**”). Based on the audited consolidated financial statements for the financial year ended 31 March 2015 (“**FY2015**”) and unaudited consolidated financial statements for the financial year ended 31 March 2016 (“**FY2016**”), the Vendor has provided HBYG with loans of approximately RMB 300,000.00 and RMB 1.75 million respectively for working capital purposes. In addition, HBYG has existing bank loans of approximately RMB 30.0 million as at the date of this announcement. The monthly interest payments for the said loans are approximately RMB 170,000.00. The Proposed Disposal will therefore reduce this financial burden on the Company and the Group’s cash flow and is expected to allow the Company to improve its financial position.
- 2.3 Based on the latest unaudited consolidated financial statements of the Group for FY2016, losses attributable to HBYG amounted to approximately RMB 8.3 million. For FY2013, FY2014 and FY2015, losses attributable to HBYG amounted to approximately RMB 2.7 million, RMB 74.1 million and RMB 16.5 million respectively. Losses are due mainly to a slowdown in China’s economy and weakening market conditions for ammonium nitrate, which in the management’s view have little possibility of recovery in the near future.
- 2.4 Based on the latest unaudited consolidated financial statements of the Group for FY2016, HBYG was in a net liability position of approximately RMB 59.5 million. After the waiver of the Shareholder’s Loan, the net liability position of HBYG will be approximately RMB 26.8 million.
- 2.5 The Proposed Disposal will therefore allow the Group to dispose of this loss-making business and financial liability, as well as to reduce its fixed operating costs through savings in interests payable on bank loans and administrative expenses of the Group.

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- 2.6 The main revenue of the Group is derived from manufacturing initiation systems, namely boosters, detonating cords, detonators and etc. While the manufacturing and sale of ammonium nitrate allows the Group to expand his product range, it is a distinct and separate business from the initiation systems business, targeting different markets and segments within the commercial explosives industry. The manufacture of initiation systems does not require supply of ammonium nitrate which is used primarily for the production of explosives. As such, the Proposed Disposal will not have a material impact on the Group's core initiation systems business.
- 2.7 The Proposed Disposal will allow the Group to reallocate its resources to focus on its existing core businesses and any future business opportunity going forward. This is also in line and consistent with the Group's intent of maximising return to the shareholders of the Company.

3. INFORMATION ON THE PURCHASER

- 3.1 The Purchaser is currently one of the directors of HBYG. He is also the general manager in charge of the day-to-day business operations of HBYG.
- 3.2 The Purchaser has represented and warranted that he has no relationship with nor acts as nominee or trustee to the Directors and/or controlling shareholders of the Company or their respective nominees or associates. Pursuant to the terms of the EPA, the Purchaser has also represented and warranted that he is undertaking the acquisition of HBYG on his own accord and will upon completion of the Proposed Disposal be the ultimate beneficial owner of HBYG.

4. SALIENT TERMS OF THE EPA

4.1 Sale and Purchase of the Equity Interest

The Vendor shall sell, and the Purchaser shall purchase, the equity interest of HBYG representing one hundred percent (100%) of HBYG's registered capital of RMB 9.0 million (the "**Equity Interest**") at a nominal sum of RMB 1.00 (the "**Purchase Price**") free and clear of any encumbrances, together with all rights, liabilities and obligations then and thereafter attached thereto on and from the Completion Date (as defined below). The Proposed Disposal is targeted to be completed within 14 business days after the date on which the last of the conditions precedent under the EPA is fulfilled or such other date as the parties may agree in writing (the "**Completion Date**"), subject to the fulfillment or waiver of the relevant conditions precedent.

The Purchase Price was arrived at on a willing buyer-willing seller basis after taking into account (i) the net liability position of HBYG as at 31 March 2016 for the sum of approximately RMB 59.5 million, (ii) losses of HBYG since FY2013 and (iii) waiver of the Shareholder's Loan. There is no open market value for the equity interest in HBYG as it is not publicly traded. No valuation on HBYG was carried out in connection with the Proposed Disposal.

The Purchase Price will be satisfied by the Purchaser in cash on the Completion Date.

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Under the terms of the EPA, the Purchaser acknowledges that HBYG has existing bank loans of approximately RMB 30.0 million in aggregate and he shall bear the liabilities for the repayment of the said bank loans and interests on such loans with effect from 1 August 2016.

The Purchaser also undertakes, represents and warrants to the Vendor that he shall not and shall procure HBYG not to dispose of all or any part of the equity interest in HBYG or any part of HBYG's businesses and assets, within a period of six (6) months after the Completion Date, without the prior written consent of the Vendor.

4.2 Conditions Precedent

The obligations of the parties relating to the Proposed Disposal will be subject to the fulfilment of *inter alia* the following conditions precedent:-

- (a) the approval of the Company's shareholders at a general meeting and the Company's Board in respect of the Proposed Disposal shall have been first obtained;
- (b) all other necessary consents and approvals, if any, being granted and not withdrawn or revoked by third parties (including without limitation, Singapore Exchange Securities Trading Limited (the "**SGX-ST**"), government bodies and other relevant authorities having jurisdiction over the transactions contemplated under the EPA) and if such consents are obtained subject to any condition(s) and where such condition(s) affect any of the parties, such condition(s) being acceptable to the party concerned and, if such condition(s) are required to be fulfilled before completion of the Proposed Disposal ("**Completion**"), such condition(s) being fulfilled before Completion;
- (c) the Purchaser shall on Completion Date execute such further documents, agreements, deeds, and do such further acts and things, as may be required so that full effect shall be given to the provisions of the EPA and the transactions contemplated under the EPA;
- (d) the Vendor agreeing in writing to waive the Shareholder's Loan owed to it by HBYG; and
- (e) the Vendor being satisfied in its sole discretion that any obligations and liabilities of the Company and its other subsidiaries in connection with HBYG have been legally, validly and fully assigned, discharged or terminated (as the case may be) on or before Completion Date.

5. **FINANCIAL EFFECTS**

- 5.1 The *pro forma* financial effects of the Proposed Disposal on the Company are for illustrative purposes only and do not reflect the actual future financial position of the Company following Completion. The *pro forma* financial effects in this section are based on the latest unaudited consolidated financial statements of the Company for FY2016 and on the following assumptions:-

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- (a) that Completion and the consolidation of every five (5) existing issued ordinary shares in the capital of the Company into one (1) ordinary share had taken place on 1 April 2015 for the purpose of the financial effect on loss per share (“LPS”); and
- (b) that Completion had taken place on 31 March 2016 for the purpose of the financial effect on net tangible assets (“NTA”) and gearing.

5.2 Share Capital

As at the date of this announcement, the issued and paid-up share capital of the Company is RMB 116,849,000.00 comprising 46,800,000 shares. The Proposed Disposal will have no impact on the issued and paid-up share capital of the Company.

5.3 Loss Per Share

The *pro forma* financial effects of the Proposed Disposal on the LPS of the Company for FY2016, assuming that the Proposed Disposal and the share consolidation had been effected as at 1 April 2015 are as follows:-

	Before adjusting for the Proposed Disposal	After adjusting for the Proposed Disposal
Net loss after tax (RMB '000)	33,823	25,486 ⁽¹⁾
Weighted average number of shares ('000)	46,800	46,800
LPS (RMB cents)	72.27	54.46

Note:-

- (1) Net loss after tax computed based on the latest unaudited consolidated financial statements for FY2016.

5.4 Net Tangible Assets

The *pro forma* financial effects of the Proposed Disposal on the NTA of the Company as at 31 March 2016, assuming that the Proposed Disposal had been effected as at 31 March 2016 are as follows:-

	Before adjusting for the Proposed Disposal	After adjusting for the Proposed Disposal
NTA (RMB '000)	368,054	394,872
NTA per share (RMB cents)	786.44	843.74

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5.5 Gearing

The *pro forma* financial effects of the Proposed Disposal on the gearing of the Company for FY2016, assuming that the Proposed Disposal had been effected as at 31 March 2016 are as follows:-

Gearing ⁽¹⁾	Times
Gearing before adjusting for the Proposed Disposal	0.15
Gearing after adjusting for the Proposed Disposal	0.08

Note:-

(1) The Gearing was determined based on total borrowings and debt securities divided by total assets.

5.6 Net Liability Value and Gain on Disposal

The net liability value of HBYG is approximately RMB 59.5 million as at 31 March 2016. The Purchase Price represents an excess over the net liability value of HBYG of RMB 26.8 million.

The Proposed Disposal at the Purchase Price will give rise to an estimated net gain on disposal of RMB 26.8 million as at 31 March 2016 for the Group.

Assuming that the Proposed Disposal had been effected and the Shareholder's Loan had been waived as at 31 March 2016, the gain on Proposed Disposal was calculated as follows:-

Consideration on Proposed Disposal (RMB)	1.00
Add: Net liabilities as at 31 March 2016 (RMB)	59,474,000.00
Less: Waiver of Shareholder's Loan as at 31 March 2016 (RMB)	32,656,000.00
Gain on Proposed Disposal (RMB)	26,818,000.00

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6. RELATIVE FIGURES UNDER RULE 1006 OF THE LISTING MANUAL

The relative figures computed on the bases set out in Rule 1006 of the Listing Manual of the SGX-ST and based on the latest unaudited consolidated financial statements of the Company for FY2016 are as follows:-

Rule 1006	Bases	Relative Figures
(a)	The net asset value of the assets to be disposed of compared with the Group's net asset value.	Not Meaningful ⁽¹⁾
(b)	The net loss ⁽²⁾ attributable to the assets acquired or disposed of compared with the Group's net loss.	27.8% ⁽³⁾
(c)	The aggregate value of the consideration given or received compared with the Company's market capitalisation on 10 June 2016, being the last market day on which the Company's shares were traded preceding the date of the EPA ⁽⁴⁾ .	Negligible ⁽⁵⁾
(d)	The number of equity securities issued by the issuer as consideration for a disposal, compared with the number of equity securities previously in issue.	Not applicable
(e)	The aggregate volume or amount of proved and probable reserves to be disposed of, compared with the aggregate of the Group's proved and probable reserves. This basis is applicable to a disposal of mineral, oil or gas assets by a mineral, oil and gas company, but not to an acquisition of such assets.	Not applicable

Notes:-

- (1) Not meaningful as HBYG has a net liability value of approximately RMB 59.5 million, as compared to the Group's net asset value of RMB 368,054,000.00 as at 31 March 2016.
- (2) Under Rule 1002(3)(b), "net loss" means loss before income tax, minority interests and extraordinary items.
- (3) Based on HBYG's net loss of RMB 8,363,000.00, as compared to the Group's net loss of RMB 30,087,000.00 as at 31 March 2016.
- (4) Under Rule 1002(5), "market capitalisation" is determined by multiplying the number of shares in issue by the weighted average price of such shares transacted on 10 June 2016 being the last market day on which the Company's shares were traded preceding the date of the EPA.
- (5) The Company's market capitalisation on 10 June 2016 is SGD 8.3 million.

As the relative figure computed under Rule 1006(b) exceeds 20%, the Proposed Disposal constitutes a major transaction under Chapter 10 of the Listing Manual of the SGX-ST. Accordingly, the Proposed Disposal is subject to shareholders' approval at the extraordinary general meeting of the Company to be convened.

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7. INTEREST OF DIRECTORS AND CONTROLLING SHAREHOLDERS

Save for their respective shareholding interests in the Company, none of the Directors or controlling shareholders of the Company has any interest, direct or indirect, in the EPA and the Proposed Disposal.

No person is purported to be appointed to the Board pursuant to or in connection with the Proposed Disposal. Accordingly, no service contract is proposed to be entered into between the Company and any such person pursuant to or in connection with the Proposed Disposal.

8. RESPONSIBILITY STATEMENT

The Directors collectively and individually accept full responsibility for the accuracy of the information given in this announcement and confirm after making all reasonable enquiries that, to the best of their knowledge and belief, this announcement constitutes full and true disclosure of all material facts about the Proposed Disposal and the Group, and the Directors are not aware of any facts the omission of which would make any statement in this announcement misleading.

Where information in this announcement has been extracted from published or otherwise publicly available sources or obtained from a named source, the sole responsibility of the Directors has been to ensure that such information has been accurately and correctly extracted from those sources and/or reproduced in this announcement in its proper form and context.

9. DOCUMENTS AVAILABLE FOR INSPECTION

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

10. CIRCULAR

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

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11. CAUTION IN TRADING

Shareholders are advised to exercise caution in trading their shares. There is no certainty or assurance as at the date of this announcement that the Proposed Disposal will be completed or that no changes will be made to the terms thereof. The Company will make the necessary announcements when there are further developments on the Proposed Disposal and other matters contemplated by this announcement. Shareholders are advised to read this announcement and any further announcements by the Company carefully. Shareholders should consult their stock brokers, bank managers, solicitors or other professional advisers if they have any doubt about the actions they should take.

By Order of the Board

Sun Bowen
Managing Director

16 June 2016