



Fabchem China Limited

PROPOSED ACQUISITION OF SHANDONG LAIZHOU PING'AN COMMERCIAL EXPLOSIVES CO., LTD.

1. INTRODUCTION

- 1.1 The board of directors (the “**Board**” or the “**Directors**”) of Fabchem China Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) wishes to announce that the Company’s wholly-owned subsidiary, Shandong Yinguang Technology Co., Ltd. (山东银光科技有限公司) (“**Yinguang Technology**” or the “**Purchaser**”), has today entered into a sale and purchase agreement (the “**SPA**”) with the Vendors (defined below) and Shandong Laizhou Ping’an Commercial Explosives Co., Ltd. (山东省莱州平安民用爆炸物品专营有限公司) (the “**Target Company**”, together with its subsidiaries, the “**Target Group**”) (the Company, Target Company, and Vendors shall be referred to collectively as the “**Parties**” and each individually the “**Party**”).
- 1.2 Pursuant to the SPA, the Purchaser will acquire 100% equity interest (“**Target Equity Interest**”) in the total registered and paid-up capital of the Target Company (the “**Proposed Acquisition**”).
- 1.3 The Vendors are: Sheng Zhenbo (盛振波), Liu Benquan (刘本全), Jia Yongmei (贾永梅), Xia Li (夏莉), Sun Xinle (孙新乐), and Zhaoyuan 761 Co., Ltd. (招远七六一有限责任公司) (each individually the “**Vendor**”, collectively, the “**Vendors**”).
- 1.4 Upon completion of the Proposed Acquisition (“**Completion**”), the Target Company will be a wholly-owned subsidiary of the Purchaser.

2. THE PROPOSED ACQUISITION AS A MAJOR TRANSACTION

The relative figures in relation to the Proposed Acquisition pursuant to Rule 1006 of the Singapore Exchange Securities Trading Limited (“**SGX-ST**”) Mainboard Listing Manual (“**Listing Manual**”), based on the latest announced unaudited consolidated results of the Group for the year ended 31 March 2018, are:-

Rule 1006(a)	
The net asset value of the assets to be disposed of, compared with the Group's net asset value. This basis is not applicable to an acquisition of assets	<i>Not applicable</i>
Rule 1006(b)	
The net loss attributable to the assets acquired or disposed of, compared with the Group's net loss ⁽¹⁾	68.2%



Rule 1006(c)	
The aggregate value of the Purchase Consideration given, compared with the Company's market capitalisation ⁽²⁾	95.2%
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	<i>Not applicable. No equity securities are intended to be issued as consideration for the Proposed Acquisition.</i>
Rule 1006(e)	
The aggregate volume or amount of proved and probable reserves to be disposed of, compared with the aggregate of the Company'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 an acquisition of such assets.	<i>Not applicable</i>

Notes:

- (1) The unaudited net loss before tax of the Target Company for the 12-month period ended 31 March 2018 of RMB10.4 million, compared with the Company's consolidated unaudited net loss before tax of RMB 15.3 million for the financial year ended 31 March 2018.
- (2) The aggregate value of the Purchase Consideration given for the Proposed Acquisition is RMB40.5 million, compared to the Company's market capitalisation of approximately SGD8.9 million or RMB 42.6 million (based on 46.8 million shares of the Company in issue and the weighted average price of S\$0.19 per share of the Company on the last market day, namely 14 June 2018 on which the Company's shares were traded preceding the date of the SPA. The exchange rate used is SGD 1 : RMB 4.788 as at 31 March 2018.

As the relative figure under Rule 1006(c) exceeds 20%, the Proposed Acquisition constitutes a "Major Transaction" as defined in Chapter 10 of the Listing Manual. Accordingly, the Proposed Acquisition is subject to the approval of the shareholders of the Company ("**Shareholders**") at an extraordinary general meeting due to be convened ("**EGM**"). A circular will be despatched to the Shareholders in due course.

3. INFORMATION TO BE ANNOUNCED UNDER RULE 1010 OF THE LISTING MANUAL FOR MAJOR TRANSACTION

3.1 *Particulars of the assets acquired and description of trade carried on*

The Vendors

Each of the Vendors is not related to any of the Company's directors, controlling shareholders or their respective associates.

Sheng Zhenbo (盛振波) is the general manager and director of the Target Company and oversees the day-to-day business operations of the Target Group. Liu Benquan (刘本全) and Jia Yongmei (贾永梅) are retired from the Target Group. Xia Li (夏莉) and Sun Xinle (孙新乐) are currently employees of the Target Group (departmental manager and office administrative manager respectively) (collectively, the "**Individual Vendors**").

Zhaoyuan 761 Co., Ltd. (招远七六一有限责任公司) is a company that currently engages in the trading of industrial chemical products and related raw materials.

The Target Company

The Target Company was incorporated on 17 June 1998 under the laws of People's Republic of China ("**PRC**"). As at the date of this announcement, the Target Company has a registered and paid-up capital of RMB900,000. The Target Company has three wholly-owned subsidiaries, namely, Laizhou Pinglei Explosion Project Service Co., Ltd. (莱州市平磊爆破工程服务有限责任公司) ("**Pinglei**"), Laizhou Anlei Explosion Project Service Co., Ltd. (莱州市安磊爆破工程服务有限责任公司) ("**Anlei**"), and Laizhou Shun'an Transportation Service Co., Ltd. (莱州市顺安运输服务有限责任公司) ("**Shun'an**").

The Target Company is in the business of trading in commercial explosives products, and together with its three wholly-owned subsidiaries, also provides blasting services, targeting clients located in Laizhou, Yantai City, Shandong, PRC.

Based on the unaudited financial statements of the Target Company for the 12-month period ended 31 March 2018, its net tangible asset value ("**NTA**") was approximately RMB4.7 million and loss before tax (excluding any extraordinary gain) was approximately RMB2.2 million.

Pinglei

Pinglei, a wholly-owned subsidiary of the Target Company, was incorporated on 11 April 2003 and as at the date of this announcement has a registered and paid up capital of RMB12.0 million. Pinglei carries on the business of underground mining and blasting services.

Based on the unaudited financial statements of Pinglei for the 12-month period ended 31 March 2018, its NTA was approximately RMB3.7 million and loss before tax (excluding any extraordinary gain) was approximately RMB2.7 million.

Anlei

Anlei, a wholly-owned subsidiary of the Target Company, was incorporated on 16 November 2012 and as at the date of this announcement has a registered capital of RMB10.0 million and a paid up capital of RMB1.0 million. Anlei carries on the business of surface mining and blasting services, as well as earth excavation services.

Based on the unaudited financial statements of Anlei for the 12-month period ended 31 March 2018, its net tangible liabilities (“**NTL**”) was approximately RMB4.0 million and loss before tax (excluding any extraordinary gain) was approximately RMB4.5 million.

Shun’an

Shun’an, a wholly-owned subsidiary of the Target Company, was incorporated on 14 August 2012 and as at the date of this announcement has a registered and paid up capital of RMB5.0 million. Shun’an carries on the business of transportation of explosive goods.

Based on the unaudited financial statements of Shun’an for the 12-month period ended 31 March 2018, its NTL was approximately RMB760,000 and loss before tax (excluding any extraordinary gain) was approximately RMB1.0 million.

3.2 *The aggregate value of the consideration, including factors taken into consideration in arriving at it and how it will be satisfied, including the terms of payment*

Purchase Consideration

The aggregate consideration for the Proposed Acquisition is approximately RMB40.5 million (the “**Purchase Consideration**”) which shall be fully satisfied in cash in the following manner:

- (a) approximately RMB5.5 million of the Purchase Consideration to be paid to Zhaoyuan 761 Co., Ltd. on the Completion Date (as defined below);
- (b) approximately RMB35.0 million to be paid to the Individual Vendors in such manner:
 - (i) 90% or approximately RMB31.5 million to be paid on the Completion Date as follows:
 - i. approximately RMB7.4 million to be paid to the Target Company to repay in full a shareholders’ loan owed by the Individual Vendors to the Target Company;
 - ii. RMB24.1 million to be paid to the Individual Vendors on the Completion Date proportionate to their respective shareholding in the Target Company; and
 - (ii) 10% or approximately RMB3.5 million to be paid to the Individual Vendors proportionate to their respective shareholdings in the Target Company within 12 months after the Completion Date.

Apart from the Purchase Consideration, there are no other consideration or further amounts payable by the Purchaser in connection with the Proposed Acquisition, including, but not limited to, any deferred consideration payable by the Purchaser in the future, loans or guarantees extended by Purchaser, the discharge of any liabilities (whether actual or contingent) by the Purchaser, or the provision of other forms of security by the Purchaser.

Basis of the Purchase Consideration

The Purchase Consideration was arrived at, on a willing-buyer willing-seller basis, after negotiations which were conducted at arms' length between the Parties, and took into account, *amongst others*, the prospective synergies of the businesses of the Group and the rationale for the Proposed Acquisition, including but not limited to the high barrier of entry of the Target Group's businesses.

3.3 *Whether there are any material conditions attaching to the transaction*

Conditions Precedent

The Proposed Acquisition is conditional upon the following, amongst others:

- (a) the respective businesses of the Target Group being carried out in the normal manner;
- (b) there being no change of circumstances which would render it unlawful, inexpedient or not commercially viable for the Company to acquire the Target Company;
- (c) the Purchaser being satisfied at its sole discretion with the results of the due diligence exercise (legal, financial or otherwise) on each of the entities in the Target Group, as advised by legal counsels, accountants or other professional advisers appointed by the Company;
- (d) the receipt of approval for the Proposed Acquisition from the Board;
- (e) the requisite approval of the shareholders of the Company at the EGM being obtained for the Proposed Acquisition;
- (f) the approval of the SGX-ST for the Proposed Acquisition and if such approval is subject to conditions, such conditions being reasonably acceptable to the Purchaser, and such approval remaining in full force and effect at the Completion Date;
- (g) all licences, permits, consents, approvals, authorisations, waivers and exemptions which are required for the purposes of conducting and carrying on the business ("**Licences and Permits**") remaining in force and not having expired or been revoked, and there being no occurrence of which could result in any of such Licences and Permits being revoked, as at the Completion Date; and
- (h) the simultaneous completion of the acquisition of the Target Equity Interest from the Individual Vendors and from Zhaoyuan 761 Co., Ltd..

Completion Date

Completion of the Proposed Acquisition shall take place no later than three business days after approval of the shareholders of the Company for the Proposed Acquisition has been obtained (the “**Completion Date**”), subject to such extension of time as may be agreed in writing between the Parties.

Termination of the SPA

If one of the Parties fails to perform any material obligations or liabilities under the SPA (the “**Defaulting Party**”), the other party (the “**Non-Defaulting Party**”) shall have the right to issue a notice of rectification in writing, and if the Defaulting Party does not rectify the dispute within thirty 30 days after receiving the notice of rectification, the Non-Defaulting Party shall be entitled to terminate and rescind the SPA. The Defaulting Party shall be liable for a breach of contract under the laws of the PRC, and shall compensate the Non-Defaulting Party for all costs and losses accordingly.

Exclusive Dealing and Facilitation of Purchaser’s Due Diligence

In view of the nature of the industry, the number of Vendors involved and to secure the Vendors’ collective commitment to the Proposed Acquisition on an exclusive basis (taking into account the then competing interests from other third parties), and to facilitate due diligence exercises being conducted by the Purchaser (including rectification measures required to be undertaken), the Parties have arranged for the Target Equity Interest to be conditionally transferred to the Purchaser in October 2017 (“**Interim Transfer**”). This Interim Transfer would also serve to secure the Vendors’ performance of their obligations under the SPA to compensate the Purchaser in the event of a termination due to the default of the Vendors.

As set out in the SPA, the Interim Transfer is subject to the following terms and conditions:

- (a) from the period beginning from the date of transfer of the Target Equity Interest to the Completion Date:
 - (i) the decision-making powers of the Target Group shall continue to be exercised by the Vendors and its existing management personnel. The Purchaser shall not have any decision-making powers over the Target Group;
 - (ii) the Vendors shall continue to exercise all rights and are entitled to all benefits arising from the Target Equity Interest, and similarly bear all losses and liabilities incurred by the Target Group; and
- (b) if for any reason the Proposed Acquisition cannot be completed, the Purchaser shall transfer the Total Equity Interest back to the Vendors.

For the avoidance of doubt, (i) as the Company does not have any control over the Target Group's operational and financial matters, the Target Company is not a subsidiary of the Company for accounting purposes and the financial statements of the Target Group are not consolidated with that of the Group, (ii) the Company does not own the beneficial interests in the Target Equity Interest, and (iii) other than the Purchase Consideration to be satisfied at Completion, no other consideration of any nature was or will be paid by the Purchaser in return for the above exclusive dealing arrangement.

Indemnity

Pursuant to the SPA, each of the Vendors agrees with and undertakes to the Purchaser and the Target Group to indemnify the Purchaser and the Target Group against all and any actions, proceedings, investigations, liabilities, losses, depletion in or reduction in the value of its assets or increase in its liabilities, costs and expenses (including, without limitation, all costs and expenses incurred in disputing or defending any of the foregoing on a full indemnity basis) based on, arising out of or otherwise in respect of or in relation to:

- (a) the Target Group's breach of or non-compliance with and/or alleged breach or non-compliance with all statutes, laws and regulations which occurred or are deemed to have occurred on or before the Completion Date;
- (b) any inaccuracy or breach of any of the representations, warranties, undertakings, covenants, obligations and agreements made by the Vendors under the SPA; and
- (c) any claim for taxation.

3.4 *The value (book value, net tangible asset value and the latest available open market value) of the assets being acquired, and in respect of the latest available valuation the value placed on the assets, the party who commissioned the valuation and the basis and date of such valuation*

Information on the NTA/NTL of the respective entities within the Target Group is set out in paragraph 3.1 above. On a consolidated basis, the unaudited NTL of the Target Group as at 31 March 2018 was approximately RMB2.0 million.

No independent valuation was conducted on the Target Group.

3.5 *The source(s) of funds for the acquisition*

The Purchase Consideration will be satisfied fully in cash, and funded from the Group's internal resources.

3.6 *The net loss attributable to the assets being acquired*

Based on the unaudited financial statements of the Target Group for the 12-month period ended 31 March 2018, the aggregate net loss after taxation was approximately RMB10.4 million.

3.7 *Effect on share capital*

The Proposed Acquisition will not have any effect on the share capital and shareholding structure of the Company as the Proposed Acquisition does not involve the allotment and issuance of any new shares in the Company and the Purchase Consideration will be fully satisfied in cash.

3.8 *The effect of the transaction on the net tangible assets per share of the issuer for the most recently completed financial year, assuming that the transaction had been effected at the end of that financial year and the effect of the transaction on the earnings per share of the issuer for the most recently completed financial year, assuming that the transaction had been effected at the beginning of that financial year*

The pro forma financial effects are presented for illustrative purposes only and are not intended to reflect the actual future financial position of the Company following the completion of the Proposed Acquisition.

Such pro forma financial effects have been computed based on the unaudited consolidated financial statements of the Group for the financial year ended 31 March 2018 and the unaudited financial statements of the Target Group for the 12-month period ended 31 March 2018 based on the following assumptions:

- (a) the financial effects of the Proposed Acquisition on the NTA per share of the Company for the financial year ended 31 March 2018 are computed assuming that the Proposed Acquisition was completed on 31 March 2018;
- (b) the financial effects of the Proposed Acquisition on the loss per share (“LPS”) of the Company are computed assuming that the Proposed Acquisition was completed on 1 April 2017;
- (c) there was no issuance and allotment of shares in the Company; and
- (d) transactional costs incurred for the Proposed Acquisition are assumed to be insignificant and as such, have not been taken in account in the computation of the financial effects.

NTA per share

	Before the Proposed Acquisition	After the Proposed Acquisition
NTA (RMB'000)	354,045	354,045
Number of shares of the Company	46,800	46,800
NTA per Share (RMB)	7.57	7.57

LPS

	Before the Proposed Acquisition	After the Proposed Acquisition
Loss attributable to owners of the Company (RMB'000)	(15,111)	(25,555)
Weighted average number of shares	46,800	46,800
LPS (RMB cents)	32.29	54.60

Gearing

The pro forma financial effects of the Proposed Acquisition on the gearing of the Group for FY2018, assuming that the Proposed Acquisition had been effected as at 31 March 2018 are as follows:

	Before the Proposed Acquisition	After the Proposed Acquisition
Total debt (RMB '000)	59,650	67,650
Total assets (RMB '000)	516,425	573,556
Gearing	0.12	0.12

3.9 *The rationale for the transaction including the benefits which are expected to accrue to the issuer as a result of the transaction*

The Board is of the view that the Proposed Acquisition will provide the following commercial benefits to the Company:

- (a) The PRC government is expected to reduce the number of licenses and permits issued to businesses engaging in the sale of commercial explosives and provision of blasting services. This is in line with the PRC government's stance to consolidate and streamline this industry. Accordingly, this poses a high entry barrier for new players and the Proposed Acquisition would allow the Group to gain a direct foothold into this industry where competition will only be limited to the existing players.
- (b) Notwithstanding that the Target Group is loss-making and in a NTL position, the Company's management believes that we are able to reduce operational costs of the Target Group through the sharing of resources, leveraging on economies of scale and implementing other costs-cutting measures.

The Acquisition will allow the Group to reduce operational costs as the Group would be able to produce and market commercial explosives under the same management, thereby capitalizing on the complementary nature of both businesses. In addition, the Company would be able to tap into the technical expertise and the clientele base of the Target Group.

- (c) As the Target Group is primarily involved in the sale of commercial explosives and provision of blasting services, and is also an existing customer to the Group, the Proposed Acquisition represents a strategic expansion of the Group's business as a manufacturer as well as a wholesaler of explosives. After the Proposed Acquisition, the Company will be able to enhance its operational value chain, and will be able to produce and distribute its products directly to more end-users.
- (d) The Target Group has been in operation since 1998 and they have built up an established reputation and track record. More than 90% of the Target Group's sales in FY2017 were derived from repeat customers. The Proposed Acquisition will therefore further augment the Group's business presence in the PRC.
- (e) The Target Group has established a local supply chain to provide a reliable supply of commercial explosives to its customers. In addition, the Target Group's experienced technical services and operational teams provide a comprehensive range of blasting services. The Proposed Acquisition will allow both Companies to cross share product knowledge and market information in the PRC.
- (f) In recent years, more gold deposits have been found in the area where the Target Group is located. The Target Group has been supplying their commercial explosives products and blasting services to gold mine concession owners. The Proposed Acquisition will therefore allow the Group to leverage on the opportunity for possible future growth arising from such findings.

3.10 *Whether any director or controlling shareholder has any interest, direct or indirect, in the transaction and the nature of such interests*

None of the Directors or controlling shareholders of the Company and their respective associates has any interest, direct or indirect, in the Proposed Acquisition (other than through their respective shareholdings in the Company, if any).

3.11 *Details of any service contracts of the directors proposed to be appointed to the issuer in connection with the transaction*

There are no directors proposed to be appointed to the Company in connection with the Proposed Acquisition.

4. CIRCULAR AND EGM

The Company intends to convene an EGM to seek Shareholders' approval for the Proposed Acquisition. The Circular containing, *inter alia*, the notice of the EGM and details of the Proposed Acquisition will be despatched to the Shareholders in due course.

5. DIRECTORS' 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 Acquisition, 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.

6. CAUTIONARY STATEMENT

Shareholders are advised to exercise caution in trading their shares in the Company. The Proposed Acquisition is subject to numerous conditions. There is no certainty or assurance as at the date of this Announcement that the Proposed Acquisition 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 Acquisition 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.

7. DOCUMENT AVAILABLE FOR INSPECTION

A copy of the SPA is available for inspection during normal business hours at the Company's registered office at 80 Robinson Road #02-00, Singapore 068898 for three (3) months from the date of this announcement.

By Order of the Board

Bao Hongwei
Managing Director
18 June 2018