



## Fabchem China Limited

Company registration number : 200413128G

Financial Statements for the 1<sup>st</sup> Quarter ended 30 June 2008 (“1Q2009”)

### PART I – INFORMATION REQUIRED FOR ANNOUNCEMENTS OF QUARTERLY (Q1,Q2 &Q3), HALF-YEAR AND FULL YEAR RESULTS

1(a) An income statement (for the group) together with a comparative statement for the corresponding period of the immediately preceding financial year.

	Group		Increase/ (Decrease)  %
	3 months ended 30 June 2008 RMB'000	3 months ended 30 June 2007 RMB'000	
<b>Revenue</b>	48,036	41,107	16.9
Cost of sales	(27,620)	(24,606)	12.2
<b>Gross profit</b>	20,416	16,501	23.7
<b><u>Other Items of Income</u></b>			
Interest income	72	23	213.0
Other credits – Note (i)	300	34	782.4
<b><u>Other Items of Expense</u></b>			
Distribution costs	(2,196)	(1,550)	41.7
Administrative expenses	(5,012)	(4,207)	19.1
Finance costs	(5)	(8)	(37.5)
Other charges – Note (ii)	(6)	-	N.M.
<b>Profit before income tax</b>	13,569	10,793	25.7
Income tax expense	(2,001)	(1,983)	0.9
<b>Net profit attributable to shareholders</b>	11,568	8,810	31.3
<b>Note (i) – Other Credits</b>			
Foreign exchange adjustment gain	-	34	N.M.
Grant from Ministry of Finance of Fei County	300	-	N.M.
	300	34	782.4
<b>Note (ii) – Other Charges</b>			
Foreign exchange adjustment loss	(6)	-	N.M.
	(6)	-	N.M.

Profit before income tax was stated after crediting / (charging) :-

Depreciation expenses	(654)	(727)	(10.0)
Foreign exchange adjustment gain	-	34	N.M.
Foreign exchange adjustment loss	(6)	-	N.M.
Interest expense	(5)	(8)	(37.5)
Interest income from bank deposits	72	23	213.0

1(b)(i) A balance sheet (for the issuer and group), together with a comparative statement as at the end of the immediately preceding financial year.

	Group		Company	
	30 June 2008 RMB'000	31 March 2008 RMB'000	30 June 2008 RMB'000	31 March 2008 RMB'000
<b>ASSETS</b>				
<b>Non-current assets :</b>				
Property, plant and equipment	56,932	46,624	460	481
Investment in subsidiary	-	-	113,693	114,682
<b>Total non-current assets</b>	<b>56,932</b>	<b>46,624</b>	<b>114,153</b>	<b>115,163</b>
<b>Current assets :</b>				
Inventories	27,091	22,835	-	-
Trade and other receivables (Note 1)	126,402	138,170	2,218	4,553
Other assets	21,316	8,927	1,058	525
Cash and cash equivalents	102,558	108,928	1,174	528
<b>Total current assets</b>	<b>277,367</b>	<b>278,860</b>	<b>4,450</b>	<b>5,606</b>
<b>Total assets</b>	<b>334,299</b>	<b>325,484</b>	<b>118,603</b>	<b>120,769</b>
<b>EQUITY AND LIABILITIES</b>				
<b>Capital and reserves :</b>				
Share capital	116,849	116,849	116,849	116,849
Retained earnings/(Accumulated losses)	143,687	133,529	(6,528)	(4,000)
Other reserves	25,531	24,100	1,146	2,114
<b>Total equity</b>	<b>286,067</b>	<b>274,478</b>	<b>111,467</b>	<b>114,963</b>
<b>Non-Current liabilities :</b>				
Other financial liabilities	310	331	310	331
<b>Total non-current liabilities</b>	<b>310</b>	<b>331</b>	<b>310</b>	<b>331</b>
<b>Current liabilities :</b>				
Income tax payable	3,439	5,455	-	-
Trade and other payables (Note 2)	42,946	43,618	6,755	5,405
Other financial liabilities	71	70	71	70
Other liabilities	1,466	1,532	-	-
<b>Total current liabilities</b>	<b>47,922</b>	<b>50,675</b>	<b>6,826</b>	<b>5,475</b>
<b>Total liabilities</b>	<b>48,232</b>	<b>51,006</b>	<b>7,136</b>	<b>5,806</b>
<b>Total liabilities and equity</b>	<b>334,299</b>	<b>325,484</b>	<b>118,603</b>	<b>120,769</b>
<b>Note 1</b>				
Trade receivables	125,789	136,318	-	-
Dividend receivable from subsidiary	-	-	2,218	4,553
Other receivables	613	1,852	-	-
<b>Trade and other receivables</b>	<b>126,402</b>	<b>138,170</b>	<b>2,218</b>	<b>4,553</b>
<b>Note 2</b>				
Trade payables and accruals	33,619	34,545	6,489	5,234
Other payables	9,327	9,073	266	171
<b>Trade and other payables</b>	<b>42,946</b>	<b>43,618</b>	<b>6,755</b>	<b>5,405</b>

**1(b)(ii) Aggregate amount of group's borrowings and debt securities**

**Amount repayable in one year or less, or on demand**

**(RMB'000)**

<b>30 June 2008</b>		<b>31 March 2008</b>	
<b>Secured</b>	<b>Unsecured</b>	<b>Secured</b>	<b>Unsecured</b>
71	-	70	-

**Amount repayable after one year**

**(RMB'000)**

<b>30 June 2008</b>		<b>31 March 2008</b>	
<b>Secured</b>	<b>Unsecured</b>	<b>Secured</b>	<b>Unsecured</b>
310	-	331	-

**Details of any collateral**

As at 30 June 2008, the Group has secured borrowings comprising a 7 years finance lease for the purchase of a motor vehicle. The finance lease is secured against the motor vehicle with net book value of approximately RMB 447,000, and bears effective interest rate of 6.61% per annum.

- 1(c) A cash flow statement (for the group), together with a comparative statement for the corresponding period of the immediately preceding financial year.

	<b>Group</b>	
	<b>3 months ended 30 June 2008 RMB'000</b>	<b>3 months ended 30 June 2007 RMB'000</b>
<b>Cash flows from operating activities</b>		
Profit before income tax	13,569	10,793
Adjustments for :		
Depreciation expense	654	727
Interest income	(72)	(23)
Interest expenses	5	8
Operating profit before working capital changes	<u>14,156</u>	<u>11,505</u>
Inventories	(4,256)	(6,628)
Trade and other receivables	11,768	(10,137)
Other assets	(12,389)	(5,532)
Trade and other payables	(672)	(2,950)
Other liabilities	(66)	439
Cash generated from / (used in) operations	<u>8,541</u>	<u>(13,303)</u>
Income tax paid	(4,017)	(2,105)
<b>Net cash from / (used in) operating activities</b>	<b><u>4,524</u></b>	<b><u>(15,408)</u></b>
<b>Cash flows from investing activities</b>		
Purchase of property, plant and equipment	(10,966)	(4,910)
Interest received	72	23
<b>Net cash used in investing activities</b>	<b><u>(10,894)</u></b>	<b><u>(4,887)</u></b>
<b>Cash flows from financing activities</b>		
Repayment of finance lease obligation	(20)	(28)
Interest paid	(5)	(8)
<b>Net cash used in financing activities</b>	<b><u>(25)</u></b>	<b><u>(36)</u></b>
Net effect of exchange rate changes in consolidating foreign currency financial statements	25	25
Net decrease in cash	(6,370)	(20,306)
Cash at beginning of the year	<u>108,928</u>	<u>129,008</u>
<b>Cash at end of the year</b>	<b><u>102,558</u></b>	<b><u>108,702</u></b>



**1(d)(ii) Details of any changes in the company’s share capital arising from rights issue, bonus issue, share buy-backs, exercise of share options or warrants, conversion of other issues of equity securities, issue of shares for cash or as consideration for acquisition or for any other purpose since the end of the previous period reported on. State also the number of shares that may be issued on conversion of all the outstanding convertibles, as well as the number of shares held as treasury shares, if any, against the total number of issued shares excluding treasury shares of the issuer, as at the end of the current financial period reported on and as at the end of the corresponding period of the immediately preceding financial year.**

Not applicable.

**1(d)(iii) To show the total number of issued shares excluding treasury shares as at the end of the current financial period and as at the end of the immediately preceding year.**

	<b>Group</b>	
	<b>30 June 2008</b>	<b>31 March 2008</b>
Total number of issued shares	234,000,000	234,000,000

**1(d)(iv) A statement showing all sales, transfers, disposal, cancellation and/or use of treasury shares as at the end of the current financial period reported on.**

There is no sale, transfer, disposal, cancellation and/or use of treasury shares as at the end of the current financial period reported on.

**2. Whether the figures have been audited or reviewed and in accordance with which auditing standard or practice.**

The figures have not been audited nor reviewed by the auditors.

**3. Where the figures have been audited or reviewed, the auditors’ report (including any qualifications or emphasis of a matter).**

The figures have not been audited nor reviewed by the auditors.

**4. Whether the same accounting policies and methods of computation as in the issuer’s most recently audited annual financial statements have been applied.**

The Group has applied the same accounting policies and methods of computation as in the most recently audited financial statements.

**5. If there are any changes in the accounting policies and methods of computation, including any required by an accounting standard, what has changed, as well as the reasons for, and the effect of, the change.**

There are no material changes in the accounting policies and methods of computation.

6. **Earnings per ordinary share of the group for the current financial period reported on and the corresponding period of the immediately preceding financial year, after deducting any provision for preference dividends.**

	Group	
	3 months ended 30 June 2008	3 months ended 30 June 2007
	RMB cents	RMB cents
Earnings per ordinary share for the year based on net profit attributable to shareholders :		
Based on weighted average number of ordinary shares in issue	4.94	3.76
Weighted average number of ordinary shares in issue for basic earnings per share	234,000,000	234,000,000

There is no dilution of shares as there are no shares under option.

7. **Net asset value (for the issuer and group) per ordinary share based on the total number of issued shares excluding treasury shares of the issuer at the end of the :-**

- (a) **current financial period reported on; and**  
(b) **immediately preceding financial year.**

	Group		Company	
	30 June 2008	31 March 2008	30 June 2008	31 March 2008
	RMB cents	RMB cents	RMB cents	RMB cents
Net asset value per ordinary share based on the issued shares at the end of the financial year	122.25	117.30	47.64	49.13
Number of issued shares use in calculating net asset value	234,000,000	234,000,000	234,000,000	234,000,000

8. **A review of the performance of the group, to the extent necessary for a reasonable understanding of the group's business. It must include a discussion of the following :-**
- **any significant factors that affected the turnover, costs, and earnings of the group for the current financial period reported on, including (where applicable) seasonal or cyclical factors; and**
  - **any material factors that affected the cash flow, working capital, assets and liabilities of the group during the current financial period reported on.**

### **Revenue**

Our products can be categorised mainly into (a) explosive devices such as boosters, seismic charges and tube charges; (b) industrial fuse and initiating explosive devices such as detonating cords and non-electric tubes; and (c) industrial detonators such as non-electric detonators and piston non-electric detonators. The breakdown of our revenue by the above product types and geographical segments during the 3 months period ended 30 June 2007 ("1Q2008") and 3 months period ended 30 June 2008 ("1Q2009") are as follows:

	Group				% change
	3 months ended 30 June 2008 ("1Q2009")		3 months ended 30 June 2007 ("1Q2008")		
	RMB'000	%	RMB'000	%	
Explosive devices	13,585	28.3	16,482	40.1	(17.6)
Industrial fuse and initiating explosive devices	22,447	46.7	17,126	41.7	31.1
Industrial detonators	11,569	24.1	7,433	18.1	55.6
Others <sup>(1)</sup>	435	0.9	66	0.1	559.1
	<b>48,036</b>	<b>100.0</b>	<b>41,107</b>	<b>100.0</b>	<b>16.9</b>

8. A review of the performance of the group, to the extent necessary for a reasonable understanding of the group's business. It must include a discussion of the following :-
- any significant factors that affected the turnover, costs, and earnings of the group for the current financial period reported on, including (where applicable) seasonal or cyclical factors; and
  - any material factors that affected the cash flow, working capital, assets and liabilities of the group during the current financial period reported on. (Cont'd)

**Revenue (Cont'd)**

	Group				% change
	3 months ended 30 June 2008 ("1Q2009")		3 months ended 30 June 2007 ("1Q2008")		
	RMB'000	%	RMB'000	%	
Within PRC	44,104	91.8	29,919	72.8	47.4
<u>Outside PRC</u>					
Sales through export distributors <sup>(2)</sup>	646	1.3	491	1.2	31.6
Australia	2,246	4.7	6,053	14.7	(62.9)
South Africa	-	-	2,602	6.3	N.M.
Others	1,040	2.2	2,042	5.0	(49.1)
	3,932	8.2	11,188	27.2	(64.9)
	<b>48,036</b>	<b>100.0</b>	<b>41,107</b>	<b>100.0</b>	<b>16.9</b>

Note :

(1) Others include sales of raw materials and packaging materials.

(2) These were sales to export distributors in the PRC in which they export the products to their customers overseas.

1Q2009 revenue increased by approximately RMB 6.9 million or 16.9% from 1Q2008's RMB 41.1 million to 1Q2009's RMB 48.0 million, mainly due to the increase in sales within the PRC.

a) Sales within PRC

Sales within PRC increased by approximately RMB 14.2 million or 47.4%. The increase was mainly due to the general increase in demand for commercial explosives used for infrastructure, mining and hydroelectric construction projects in the PRC as customers are shifting to non-TNT commercial explosives as required by the PRC authorities. The increase was also due to certain customers buying commercial explosives in advance for their manufacturing needs in anticipation of certain transportation restrictions during the Olympics Games Period. Please refer to Section 10 for more information.

In particular, our sales of boosters, detonating cords and piston non-electric detonators increased by approximately RMB 3.1 million, RMB 5.4 million and RMB 6.7 million respectively.

b) Sales through export distributors, Sales to Australia and Other customers

The fluctuations in sales revenue were mainly due to the different shipping requirements for delivery of goods.

c) Sales to South Africa

There were no sales to South Africa during the 3 months period ended 30 June 2008. This is mainly due to the temporary shipping disruptions caused by a dispute between the owner of the vessel and the port of South Africa. The management is discussing with our South Africa customers to resolve this matter.

All local PRC sales contracts and export applications sought by export agents have been approved by the Commission of Science, Technology and Industry for National Defense ("Commission").



8. **A review of the performance of the group, to the extent necessary for a reasonable understanding of the group's business. It must include a discussion of the following :-**
- **any significant factors that affected the turnover, costs, and earnings of the group for the current financial period reported on, including (where applicable) seasonal or cyclical factors; and**
  - **any material factors that affected the cash flow, working capital, assets and liabilities of the group during the current financial period reported on. (Cont'd)**

#### **Gross profit margin**

Gross profit margin improved slightly by approximately 2.4 percentage points from 40.1% during 1Q2008 to 42.5% during 1Q2009. The increase in our gross profit margin was mainly a result of the slight change in our product sales mix during the current quarter reported on.

#### **Interest income / (Finance costs)**

Interest income increased by approximately RMB 49,000 and finance costs decreased by approximately RMB 3,000 during the current quarter as compared to the previous corresponding quarter.

#### **Other credits / (Other charges)**

Other credits comprise a Grant of RMB 300,000 from the Ministry of Finance of Fei County during the current quarter. This Grant was awarded for our Subsidiary's good safety records. Foreign exchange adjustment gain and loss arises from foreign exchange rate changes between Renminbi (RMB), US Dollars and Singapore Dollars.

#### **Operating expenses**

Distribution costs increased by approximately RMB 0.6 million or 41.7% due mainly to the increase in petrol prices that directly affected our transportation costs during the current quarter reported on. Staff costs also increased slightly during the current quarter reported on.

Administrative expenses increased by approximately RMB 0.8 million or 19.1% mainly due to the increase in those expenses relating to the improvement of our Group's results, for example, executive directors' profit sharing and safety expenses. Executive directors' profit sharing is computed based on a certain pre-defined percentage of our profit before taxation and safety expenses is computed based on pre-defined percentages of our annual revenue as set by the State Administration of Work Safety of the PRC.

#### **Income tax expenses**

According to the Enterprise Income Tax Law for Foreign Investment Enterprises and Foreign Enterprises of the PRC, the China operating subsidiary of the Group, Shandong Yinguang Technology Co., Ltd. ("Yinguang Technology"), qualifies to enjoy a five-year tax incentive period. Under the terms of the said tax incentive period, Yinguang Technology is exempted from paying income tax for the first two profitable years of operations and is granted a 50.0% relief from the state income tax of 30.0% for the following three years. The first profitable year of Yinguang Technology is 2005. Hence, the profits derived during calendar years 2005 and 2006 were exempted from income tax. With effect from 1 January 2007, Yinguang Technology is liable to pay 15% tax, representing 50.0% of the state income tax of 30.0%.

With the lowering of state income tax from 30.0% to 25.0% with effect from 1 January 2008, Yinguang Technology is liable to pay a reduced tax rate of 12.5%, representing 50.0% of the state income tax of 25.0%, for 2 years from 1 January 2008 to 31 December 2009.

Yinguang Technology is exempted from paying the provincial income tax of 3.0% during its years of operations.

The effective tax rate for 1Q2009 was 14.7% (1Q2008: 18.4%). This is higher than the PRC concessionary tax rate of 12.5% (or 15.0% before 1 January 2008) due to the corporate expenses incurred in Singapore.

8. **A review of the performance of the group, to the extent necessary for a reasonable understanding of the group's business. It must include a discussion of the following :-**
- **any significant factors that affected the turnover, costs, and earnings of the group for the current financial period reported on, including (where applicable) seasonal or cyclical factors; and**
  - **any material factors that affected the cash flow, working capital, assets and liabilities of the group during the current financial period reported on. (Cont'd)**

#### **Balance sheet**

Property, plant and equipment increased by approximately RMB 10.3 million mainly due to the payment for the construction costs for our 2 new production facilities.

Inventories, trade and other receivables, other assets and cash and cash equivalents, represent approximately 9.7, 45.6%, 7.7% and 37.0% of our total current assets as at 30 June 2008.

Inventories increased by approximately RMB 4.3 million or 18.6% from 31 March 2008's RMB 22.8 million to 30 June 2008's RMB 27.1 million. The increase was mainly due to the increase in finished goods pending shipments in the following months.

Trade and other receivables decreased by approximately RMB 11.8 million or 8.5% mainly due to the improved recoverability during the current quarter.

Other assets comprise the Group's prepayments. Other assets increased by approximately RMB 12.4 million mainly due to the increase in prepayments for certain machineries for our new production facilities.

As at 30 June 2008, our current liabilities comprise income tax payable of RMB 3.4 million, trade and other payables of approximately RMB 42.9 million, other liabilities of approximately RMB 1.5 million and a finance lease obligation of approximately RMB 71,000. Non-current finance lease obligation approximates RMB 310,000.

Trade payables and accruals decreased by approximately RMB 0.9 million mainly due to the payment of VAT payable during the current quarter. No major fluctuations for the Group's other payables and other liabilities.

Total finance lease obligation of approximately RMB 381,000 consists of a 7 years finance lease secured against a motor vehicle with net book value of approximately RMB 447,000 as at 30 June 2008 and bears effective interest rate of 6.61% per annum.

#### **Cash flow**

For the current quarter ended 30 June 2008, the Group has net cash generated from operating activities of approximately RMB 4.5 million, net cash used in investing activities of approximately RMB 10.9 million and net cash used in financing activities of approximately RMB 25,000.

The net cash generated from operating activities of approximately RMB 4.5 million during 1Q2009 as compared to a net cash outflow of approximately RMB 15.4 million during 1Q2008 was mainly due to the better debts recoverability effort made by the management.

The net cash used in investing activities of approximately RMB 10.9 million was mainly due to the construction of our two new production facilities.

**9. Where a forecast, or a prospect statement, has been previously disclosed to shareholders, any variance between it and the actual results.**

No forecast or prospect statement has been previously issued.

**10. A commentary at the date of the announcement of the significant trends and competitive conditions of the industry in which the group operates and any known factors or events that may affect the group in the next reporting period and the next 12 months.**

*Effects of 2008 Olympic Games in the People's Republic of China ("PRC")*

On 10 July 2008, the Port and Shipping Authority of Qingdao released a Notice (the "PSA Notice") imposing restrictions for dangerous goods to be shipped out of Qingdao port during 25 July 2008 to 30 September 2008.

On 11 July 2008, the Ministry of Public Security of the People's Republic of China released a Notice (the "MPS Notice") imposing restrictions for transportation of dangerous goods within PRC. According to the MPS Notice, no transportation of dangerous goods to or transit through Beijing and Qingdao from the date of the MPS Notice until 30 September 2008, and no transportation of dangerous goods to or transit through Tianjin, Shanghai, Qinhuangdao and Shenyang from the date of the MPS Notice until 31 August 2008.

On 4 August 2008, the Fei County Economy & Trade Bureau and the Power Supply Company of Fei County jointly issued a Notice (the "PSC Notice") to our PRC subsidiary, Shandong Yinguang Technology Co., Ltd ("Yinguang Technology"), informing Yinguang Technology that there will be a power supply rationing during the Olympic Games period and Yinguang Technology will need to temporarily cease production during the period from 8 August 2008 to 24 August 2008. According to the PSC Notice, the move is to cope with the shortage of power supply currently encountered by the whole of Shandong province and also to ensure that the power supply for the Olympic Games are sufficient and will not be disrupted.

Based on the above notices, the management is of the view that both our local PRC and export sales will be adversely affected during the 2008 Olympic Games until 30 September 2008, i.e. the Group's second quarter's results.

*Boosters and Detonators facilities*

As mentioned above under the 'Cash flow' section and in our previous announcements, the Group had commenced the construction of a 3,000 tonnes Boosters and a 60 million units Piston non-electric detonators production facilities. Upon the commissioning of the new Piston non-electric detonators facility, the existing 20 million units facility will be converted for trial and testing purposes.

The progress of the above-mentioned construction is within our expected timeline and we expect that these two new production facilities will bring positive contributions to our FY2009 results.

*Use of IPO proceeds*

For the 3 months ended 30 June 2008, the Group has utilised RMB 13.1 million of the IPO proceeds for the acquisition of equipments and machineries for boosters and piston non-electric detonators. Total IPO proceeds utilised up till 30 June 2008 is approximately RMB 29.4 million.

*Mergers and acquisitions*

On 19 December 2007, the Group announced the proposed acquisition of Hebei Yinguang Chemical Co., Ltd ("Hebei Yinguang"). Hebei Yinguang is principally engaged in the business of manufacturing and selling ammonium nitrate. Ammonium Nitrate is a major raw material for explosives. With the integration of such specialty raw material into our business, the Group can deliver extra value to the explosives industry thus tightened the relationship with the industry for the Group's further growth.

For more information on the above proposed acquisition, please refer to our announcement on 19 December 2007.

**11. Dividend**

**(a) *Current Financial Period Reported On***

**Any dividend declared for the current financial period reported on?**

None.

**(b) *Corresponding Period of the Immediately Preceding Financial Year***

**Any dividend declared for the corresponding period of the immediately preceding financial year?**

None.

**(c) *Date payable***

Not applicable.

**(d) *Books closure date***

Not applicable.

**12. If no dividend has been declared/recommended, a statement to that effect.**

No dividend has been declared/recommended for the current financial period reported on.

**13. Negative assurance confirmation pursuant to Rule 705(4) of the Listing Manual**

On behalf of the Board of Directors of the Company, we, the undersigned, hereby confirm to the best of our knowledge that nothing has come to the attention of the Board of Directors of the Company which may render the unaudited 1<sup>st</sup> quarter financial statements set out above to be false or misleading in any material aspect.

For and On behalf of the Board of Directors

Sun Bowen  
Managing Director

Bao Hongwei  
Director

**BY ORDER OF THE BOARD  
SUN BOWEN  
MANAGING DIRECTOR  
11 AUGUST 2008**