



## Fabchem China Limited

Company registration number : 200413128G

Financial Statements for the Second Quarter ended 30 September 2008 (“2Q2009”)

### 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			Group		
	3 months from 1 Jul 2008 to 30 Sept 2008 RMB'000	3 months from 1 Jul 2007 to 30 Sept 2007 RMB'000	Increase/ (Decrease) %	6 months from 1 Apr 2008 to 30 Sept 2008 RMB'000	6 months from 1 Apr 2007 to 30 Sept 2007 RMB'000	Increase/ (Decrease) %
<b>Revenue</b>	23,408	56,697	(58.7)	71,444	97,804	(27.0)
Cost of sales	(14,839)	(32,454)	(54.3)	(42,459)	(57,060)	(25.6)
<b>Gross profit</b>	8,569	24,243	(64.7)	28,985	40,744	(28.9)
<b>Other Items of Income</b>						
Interest income	72	5	1340.0	144	28	414.3
Other credits – Note (i)	252	1	25100.0	546	33	1554.5
<b>Other Items of Expense</b>						
Distribution costs	(2,502)	(2,559)	(2.2)	(4,698)	(4,109)	14.3
Administrative expenses	(4,860)	(5,496)	(11.6)	(9,872)	(9,703)	1.7
Financial costs	(10)	(11)	(9.1)	(15)	(19)	(21.1)
Other charges– Note (ii)	-	(2)	N.M.	-	-	-
<b>Profit before income tax</b>	1,521	16,181	(90.6)	15,090	26,974	(44.1)
Income tax expense	(471)	(2,886)	(83.7)	(2,472)	(4,869)	(49.2)
<b>Net profit attributable to shareholders</b>	1,050	13,295	(92.1)	12,618	22,105	(42.9)
<b>Note (i) – Other Credits</b>						
Foreign exchange adjustment gain	244	-	N.M.	238	32	643.8
Gain on sale of fixed assets	8	1	700.0	8	1	700.0
Grant from Ministry of Finance of Fei County	-	-	-	300	-	N.M.
	252	1	25100.0	546	33	1554.5
<b>Note (ii) – Other Charges</b>						
Foreign exchange adjustment loss	-	(2)	N.M.	-	-	-
	-	(2)	N.M.	-	-	-
Profit before income tax was stated after crediting / (charging) :-						
Depreciation expenses	(688)	(658)	4.6	(1,342)	(1,385)	(3.1)
Foreign exchange adjustment gain	244	-	N.M.	238	32	643.8
Foreign exchange adjustment loss	-	(2)	N.M.	-	-	-
Gain on sale of fixed assets	8	1	700.0	8	1	700.0
Interest expense	(10)	(11)	(9.1)	(15)	(19)	(21.1)
Interest income from bank deposits	72	5	1340.0	144	28	414.3
Write-off for stocks obsolescence	-	(260)	N.M.	-	(260)	N.M.

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 September 2008 RMB'000	31 March 2008 RMB'000	30 September 2008 RMB'000	31 March 2008 RMB'000
<b>ASSETS</b>				
<b>Non-current assets :</b>				
Property, plant and equipment	62,567	46,624	435	481
Investment in subsidiary	-	-	107,702	114,682
<b>Total non-current assets</b>	<b>62,567</b>	<b>46,624</b>	<b>108,137</b>	<b>115,163</b>
<b>Current assets :</b>				
Inventories	38,354	22,835	-	-
Trade and other receivables (Note 1)	92,699	138,170	15,999	4,553
Other assets	26,357	8,927	1,408	525
Cash and cash equivalents	107,300	108,928	510	528
<b>Total current assets</b>	<b>264,710</b>	<b>278,860</b>	<b>17,917</b>	<b>5,606</b>
<b>Total assets</b>	<b>327,277</b>	<b>325,484</b>	<b>126,054</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)	144,382	133,529	11,383	(4,000)
Other reserves	25,782	24,100	(4,949)	2,114
<b>Total equity</b>	<b>287,013</b>	<b>274,478</b>	<b>123,283</b>	<b>114,963</b>
<b>Non-Current liabilities :</b>				
Other financial liabilities	277	331	277	331
<b>Total non-current liabilities</b>	<b>277</b>	<b>331</b>	<b>277</b>	<b>331</b>
<b>Current liabilities :</b>				
Income tax payable	2,456	5,455	-	-
Trade and other payables (Note 2)	35,847	43,618	2,426	5,405
Other financial liabilities	68	70	68	70
Other liabilities	1,616	1,532	-	-
<b>Total current liabilities</b>	<b>39,987</b>	<b>50,675</b>	<b>2,494</b>	<b>5,475</b>
<b>Total liabilities</b>	<b>40,264</b>	<b>51,006</b>	<b>2,771</b>	<b>5,806</b>
<b>Total liabilities and equity</b>	<b>327,277</b>	<b>325,484</b>	<b>126,054</b>	<b>120,769</b>
<b>Note 1</b>				
Trade receivables	92,533	136,318	-	-
Dividend receivable from subsidiary	-	-	15,999	4,553
Other receivables	166	1,852	-	-
<b>Trade and other receivables</b>	<b>92,699</b>	<b>138,170</b>	<b>15,999</b>	<b>4,553</b>
<b>Note 2</b>				
Trade payables and accruals	23,769	34,545	2,376	5,234
Other payables	12,078	9,073	50	171
<b>Trade and other payables</b>	<b>35,847</b>	<b>43,618</b>	<b>2,426</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 September 2008</b>		<b>31 March 2008</b>	
<b>Secured</b>	<b>Unsecured</b>	<b>Secured</b>	<b>Unsecured</b>
68	-	70	-

**Amount repayable after one year**

**(RMB'000)**

<b>30 September 2008</b>		<b>31 March 2008</b>	
<b>Secured</b>	<b>Unsecured</b>	<b>Secured</b>	<b>Unsecured</b>
277	-	331	-

**Details of any collateral**

As at 30 September 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 410,000, 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.

	Group		Group	
	3 months from 1 Jul 2008 to 30 Sept 2008 RMB'000	3 months from 1 Jul 2007 to 30 Sept 2007 RMB'000	6 months from 1 Apr 2008 to 30 Sept 2008 RMB'000	6 months from 1 Apr 2007 to 30 Sept 2007 RMB'000
<b>Cash flows from operating activities</b>				
Profit before income tax	1,521	16,181	15,090	26,974
Adjustments for :				
Depreciation expense	688	658	1,342	1,385
Gain on sale of fixed assets	(8)	(1)	(8)	(1)
Interest income	(72)	(5)	(144)	(28)
Interest expenses	10	11	15	19
Write-off for stocks obsolescence	-	260	-	260
Operating profit before working capital changes	2,139	17,104	16,295	28,609
Inventories	(11,263)	(3,782)	(15,519)	(10,410)
Trade and other receivables	33,703	9,573	45,471	(564)
Other assets	(5,041)	1,461	(17,430)	(4,071)
Trade and other payables	(7,099)	2,202	(7,771)	(748)
Other liabilities	150	(384)	84	55
Cash generated from operations	12,589	26,174	21,130	12,871
Income tax paid	(1,454)	(2,913)	(5,471)	(5,018)
<b>Net cash from operating activities</b>	<b>11,135</b>	<b>23,261</b>	<b>15,659</b>	<b>7,853</b>
<b>Cash flows from investing activities</b>				
Proceeds from sale of fixed assets	38	13	38	13
Purchase of property, plant and equipment	(6,362)	(6,566)	(17,328)	(11,479)
Interest received	72	5	144	28
<b>Net cash used in investing activities</b>	<b>(6,252)</b>	<b>(6,548)</b>	<b>(17,146)</b>	<b>(11,438)</b>
<b>Cash flows from financing activities</b>				
Dividend paid	-	(6,154)	-	(6,154)
Interest paid	(10)	(11)	(15)	(19)
Repayment of finance lease obligation	(36)	(9)	(56)	(37)
<b>Net cash used in financing activities</b>	<b>(46)</b>	<b>(6,174)</b>	<b>(71)</b>	<b>(6,210)</b>
Net effect of exchange rate changes in consolidating foreign currency financial statements	(95)	(72)	(70)	(44)
Net increase/(decrease) in cash	4,742	10,467	(1,628)	(9,839)
Cash at beginning of the period	102,558	108,702	108,928	129,008
<b>Cash at end of the period</b>	<b>107,300</b>	<b>119,169</b>	<b>107,300</b>	<b>119,169</b>
Represented by:				
Cash and cash equivalents	107,300	120,485	107,300	120,485
Bank overdraft	-	(1,316)	-	(1,316)
	107,300	119,169	107,300	119,169

**1(d)(i) A statement (for the issuer and group) showing either (i) all changes in equity or (ii) changes in equity other than those arising from capitalisation issues and distributions to shareholders, together with a comparative statement for the corresponding period of the immediately preceding financial year.**

	Share capital	Statutory reserves	Foreign exchange translation reserves	Retained earnings	Total
<b>Group (RMB'000)</b>					
Balance at 1 April 2008	116,849	23,526	574	133,529	274,478
<u>Items of income and expense recognised directly in equity:</u>					
Foreign currency translation difference not recognised in income statement	-	-	21	-	21
Net income recognised directly in equity	-	-	21	-	21
Net profit for the period	-	-	-	11,568	11,568
Appropriation for the period	-	1,410	-	(1,410)	-
Total recognised income and expense for the period	-	1,410	21	10,158	11,589
Balance at 30 June 2008	116,849	24,936	595	143,687	286,067
<u>Items of income and expense recognised directly in equity:</u>					
Foreign currency translation difference not recognised in income statement	-	-	(104)	-	(104)
Net income recognised directly in equity	-	-	(104)	-	(104)
Net profit for the period	-	-	-	1,050	1,050
Appropriation for the period	-	355	-	(355)	-
Total recognised income and expense for the period	-	355	(104)	695	946
Balance at 30 September 2008	116,849	25,291	491	144,382	287,013
Balance at 1 April 2007	116,849	14,870	712	88,031	220,462
<u>Items of income and expense recognised directly in equity:</u>					
Foreign currency translation difference not recognised in income statement	-	-	25	-	25
Net income recognised directly in equity	-	-	25	-	25
Net profit for the period	-	-	-	8,810	8,810
Appropriation for the period	-	1,041	-	(1,041)	-
Total recognised income and expense for the period	-	1,041	25	7,769	8,835
Balance at 30 June 2007	116,849	15,911	737	95,800	229,297
<u>Items of income and expense recognised directly in equity:</u>					
Foreign currency translation difference not recognised in income statement	-	-	(63)	-	(63)
Net income recognised directly in equity	-	-	(63)	-	(63)
Net profit for the period	-	-	-	13,295	13,295
Appropriation for the period	-	1,733	-	(1,733)	-
Total recognised income and expense for the period	-	1,733	(63)	11,562	13,232
<u>Other movements in equity</u>					
Dividend paid	-	-	-	(6,154)	(6,154)
Balance at 30 September 2007	116,849	17,644	674	101,208	236,375
		(a)	(a)		

**1(d)(i) A statement (for the issuer and group) showing either (i) all changes in equity or (ii) changes in equity other than those arising from capitalisation issues and distributions to shareholders, together with a comparative statement for the corresponding period of the immediately preceding financial year. (Cont'd)**

	Share capital	Foreign exchange translation reserve	Retained earnings/ (Accumulated losses)	Total
<b>Company (RMB'000)</b>				
Balance at 1 April 2008	116,849	2,114	(4,000)	114,963
<u>Items of income and expense recognised directly in equity:</u>				
Foreign currency translation difference not recognised in income statement	-	(968)	-	(968)
Net income recognised directly in equity	-	(968)	-	(968)
Net loss for the period	-	-	(2,528)	(2,528)
Total recognised income and expense for the period	-	(968)	(2,528)	(3,496)
Balance at 30 June 2008	116,849	1,146	(6,528)	111,467
<u>Items of income and expense recognised directly in equity:</u>				
Foreign currency translation difference not recognised in income statement	-	(6,095)	-	(6,095)
Net income recognised directly in equity	-	(6,095)	-	(6,095)
Net profit for the period	-	-	17,911	17,911
Total recognised income and expense for the period	-	(6,095)	17,911	11,816
Balance at 30 September 2008	116,849	(4,949)	11,383	123,283
Balance at 1 April 2007	116,849	2,599	(6,818)	112,630
<u>Items of income and expense recognised directly in equity:</u>				
Foreign currency translation difference not recognised in income statement	-	(2,784)	-	(2,784)
Net income recognised directly in equity	-	(2,784)	-	(2,784)
Net profit for the period	-	-	7,678	7,678
Total recognised income and expense for the period	-	(2,784)	7,678	4,894
Balance at 30 June 2007	116,849	(185)	860	117,524
<u>Items of income and expense recognised directly in equity:</u>				
Foreign currency translation difference	-	1,848	-	1,848
Net income recognised directly in equity	-	1,848	-	1,848
Net loss for the period	-	-	(2,833)	(2,833)
Total recognised income and expense for the period	-	1,848	(2,833)	(985)
<u>Other movements in equity</u>				
Dividend paid	-	-	(6,154)	(6,154)
Balance at 30 September 2007	116,849	1,663	(8,127)	110,385

(a)

(a) Not available for distribution as cash dividends

**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 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 September 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		Group	
	3 months ended 30 Sept 2008	3 months ended 30 Sept 2007	6 months ended 30 Sept 2008	6 months ended 30 Sept 2007
	RMB cents	RMB cents	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	0.45	5.68	5.39	9.45
Weighted average number of ordinary shares in issue for basic earnings per share	234,000,000	234,000,000	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 issued share capital of the issuer at the end of the :-
- (a) current financial period reported on; and
- (b) immediately preceding financial year.

	Group		Company	
	30 Sept 2008	31 March 2008	30 Sept 2008	31 March 2008
	RMB cents	RMB cents	RMB cents	RMB cents
Net asset value per ordinary share based on the issued capital at the end of the financial year	122.66	117.30	52.69	49.13
Number of shares used 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 for the 2<sup>nd</sup> quarter ended 30 September 2007 ("2Q2008") and 30 September 2008 ("2Q2009") and for the 6 months ended 30 September 2007 ("6M2008") and 30 September 2008 ("6M2009") are as follows:

	2Q2009		2Q2008		% change
	RMB'000	%	RMB'000	%	
Explosives devices	3,375	14.4	22,750	40.1	(85.2)
Industrial fuse and initiating explosive devices	12,593	53.8	16,220	28.6	(22.4)
Industrial detonators	7,232	30.9	17,391	30.7	(58.4)
Others <sup>(1)</sup>	208	0.9	336	0.6	(38.1)
	<b>23,408</b>	<b>100.0</b>	<b>56,697</b>	<b>100.0</b>	<b>(58.7)</b>

	2Q2009		2Q2008		% change
	RMB'000	%	RMB'000	%	
Within PRC	19,572	83.6	35,059	61.8	(44.2)
Outside PRC					
Sales through export distributors <sup>(2)</sup>	2,777	11.9	4,177	7.4	(33.5)
Australia	906	3.9	6,409	11.3	(85.9)
South Africa	-	-	8,691	15.3	N.M.
Others	153	0.6	2,361	4.2	(93.5)
	<b>3,836</b>	<b>16.4</b>	<b>21,638</b>	<b>38.2</b>	<b>(82.3)</b>
	<b>23,408</b>	<b>100.0</b>	<b>56,697</b>	<b>100.0</b>	<b>(58.7)</b>

	6M2009		6M2008		% change
	RMB'000	%	RMB'000	%	
Explosives devices	16,960	23.7	39,232	40.1	(56.8)
Industrial fuse and initiating explosive devices	35,040	49.1	33,346	34.1	5.1
Industrial detonators	18,801	26.3	24,824	25.4	(24.3)
Others <sup>(1)</sup>	643	0.9	402	0.4	60.0
	<b>71,444</b>	<b>100.0</b>	<b>97,804</b>	<b>100.0</b>	<b>(27.0)</b>

	6M2009		6M2008		% change
	RMB'000	%	RMB'000	%	
Within PRC	63,676	89.1	64,978	66.4	(2.0)
Outside PRC					
Sales through export distributors <sup>(2)</sup>	3,423	4.8	4,668	4.8	(26.7)
Australia	3,152	4.4	12,462	12.7	(74.7)
South Africa	-	-	11,293	11.6	N.M.
Others	1,193	1.7	4,403	4.5	(72.9)
	<b>7,768</b>	<b>10.9</b>	<b>32,826</b>	<b>33.6</b>	<b>(76.3)</b>
	<b>71,444</b>	<b>100.0</b>	<b>97,804</b>	<b>100.0</b>	<b>(27.0)</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.

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)**

The revenue for the 2<sup>nd</sup> quarter ended 30 September 2008 decreased by approximately RMB 33.3 million or 58.7% from 2Q2008's RMB 56.7 million to 2Q2009's RMB 23.4 million, mainly due to the impact from the Beijing Olympics 2008 as mentioned in our first quarter results announcement and the profit warning announcement on 8 September 2008.

##### a) **Sales within PRC**

Sales within PRC decreased by approximately RMB 15.5 million or 44.2% during 2Q2009 as compared to 2Q2008.

Nevertheless, for the 6 months ended 30 September 2008, local PRC sales only decreased by a marginal 2.0% or RMB 1.3 million as compared to previous corresponding 6 months. This is mainly due to the strong local sales during the 1<sup>st</sup> quarter of FY2009.

##### b) **Export sales**

Our export sales decreased by RMB 17.8 million or 82.3% during 2Q2009 as compared to 2Q2008, and RMB 25.1 million or 76.3% during 6M2009 as compared to 6M2008.

Sales to South Africa will be resumed during the third quarter of FY2009, i.e. October to December 2008.

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 ("the Commission").

#### **Gross profit margin**

Gross profit margin deteriorates by approximately 6.2 percentage points from 2Q2008's 42.8% to 2Q2009's 36.6%. For 6M2009, gross profit margin deteriorates by approximately 1.1 percentage points from 6M2008's 41.7% to 6M2008's 40.6%.

Our gross profit margin deteriorates mainly due to the fixed costs incurred during the second quarter ended 30 September 2008 where production and sales volume decreased due to the Beijing Olympics. In addition, increase in raw materials prices also affected our gross profit margins during the current period reported on.

#### **Other credits**

Other credits include a grant of RMB 300,000 from the Ministry of Finance of Fei County during the 6 months ended 30 September 2008. This grant was awarded for our Subsidiary's good safety records. Foreign exchange adjustment gain arises mainly from foreign exchange rate fluctuation between Renminbi (RMB) and Singapore Dollars, whereby RMB appreciates over the last few months.

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)**

#### **Operating expenses**

For 2Q2009, distribution costs decreased by approximately RMB 57,000 or 2.2% from 2Q2008's RMB 2.6 million to 2Q2009's RMB 2.5 million and administrative expenses decreased by approximately RMB 0.6 million or 11.6% from 2Q2008's RMB 5.5 million to 2Q2009's RMB 4.9 million. The decrease is mainly due to lower sales revenue for the current quarter due to the Beijing Olympics. However, certain unavoidable fixed operating expenses, eg. staff costs, depreciation and maintenance costs, etc, were still incurred during this period. In addition, raising costs like staff costs and petrol costs had also caused our operating expenses to increase during this quarter as compared to the previous corresponding quarter.

For 6M2009, distribution costs increased by approximately RMB 0.6 million or 14.3% from 6M2008's RMB 4.1 million to 6M2009's RMB 4.7 million and administrative expenses increased by approximately RMB 0.2 million or 1.7% from 6M2008's RMB 9.7 million to 6M2009's RMB 9.9 million. The increase is mainly due to the raising costs including staff costs and petrol costs incurred during 6M2009 as compared to 6M2008.

#### **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.

The effective tax rate for 2Q2009 and 6M2009 was 31.0% (2Q2008 : 17.8%) and 16.4% (6M2008 : 18.1%). This is higher than the PRC concessionary tax rate of 12.5% (or 15% 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 15.9 million mainly due to the payment for the construction costs for our 2 new production facilities, i.e. 3,000 tonnes boosters and 60 million units piston non-electric detonators.

Inventories, trade and other receivables, other assets and cash and cash equivalents, represent approximately 14.5%, 35.0%, 10.0% and 40.5% of our total current assets as at 30 September 2008.

Inventories increased by approximately RMB 15.5 million or 68.0% from 31 March 2008's RMB 22.8 million to 30 September 2008's RMB 38.3 million. The increase was mainly due to the stocking up of finished goods during the Beijing Olympics period pending shipments in the following months.

Trade and other receivables decreased by approximately RMB 45.5 million or 32.9% mainly due to the improved recoverability and lower sales generated during the current financial period reported on.

Other assets comprise the Group's prepayments. Other assets increased by approximately RMB 17.4 million mainly due to the increase in prepayments for certain machineries for our new production facilities.

As at 30 September 2008, our current liabilities comprise income tax payable of RMB 2.5 million, trade and other payables of approximately RMB 35.8 million, other liabilities of approximately RMB 1.6 million and a finance lease obligation of approximately RMB 68,000. Non-current finance lease obligation approximates RMB 277,000.

Trade payables and accruals decreased by approximately RMB 10.8 million mainly due to lesser purchases during the current 6 months ended 30 September 2008. Increase in Other payables is mainly due to additional monthly accrual for safety expenses and other miscellaneous accruals.

Total finance lease obligation of approximately RMB 345,000 consists of a 7 years finance lease secured against a motor vehicle with net book value of approximately RMB 410,000 as at 30 September 2008 and bears effective interest rate of 6.61% per annum.

#### **Cash flow**

For the current 6 months ended 30 September 2008, the Group has net cash generated from operating activities of approximately RMB 15.7 million, net cash used in investing activities of approximately RMB 17.1 million and net cash used in financing activities of approximately RMB 71,000.

The net cash generated from operating activities of approximately RMB 15.7 million during 6M2009 as compared to RMB 7.9 million during 6M2008 was mainly due to the better debts recoverability effort made by the management.

The net cash used in investing activities of approximately RMB 17.1 million was mainly due to the construction of our two new production facilities, i.e. 3,000 tonnes boosters and 60 million units piston non-electric detonators.

**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, except for the Profit Warning announcement issued by the Company on 8 September 2008 with regards to the impact from the 2008 Beijing Olympics Games on the Group's second quarter's results.

**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.**

*Boosters and Detonators facilities*

The board of directors is pleased to inform our shareholders that Yinguang Technology had completed the construction of the 2 new production facilities, i.e. 3,000 tonnes boosters and 60 million units piston non-electric detonators, and is currently waiting for the relevant authority's approval to commence production.

*Use of IPO proceeds*

For the 3 months ended 30 September 2008, the Group has utilised approximately RMB 3.5 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 September 2008 is approximately RMB 32.9 million.

*Mergers and acquisitions*

During the Extraordinary General Meeting on 22 September 2008, the shareholders approved the 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. This additional capacity and product would differentiate our Group from other commercial explosive devices manufacturers in the PRC. For more information on this acquisition, please refer to the Circular dated 29 August 2008.

On 21 October 2008, the Group completed the above-mentioned acquisition and Hebei Yinguang became a wholly-owned subsidiary of the Group.

*Global economic conditions*

While business activities have recovered well subsequent to the Beijing Olympics, the board of directors remains cautious with regards to the current global economic conditions and will inform our shareholders immediately of any possible impact these economic conditions may have on the Group's performance.

**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/recommendeded, a statement to that effect.**

No dividend has been declared/recommendeded 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 2<sup>nd</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  
10 NOVEMBER 2008**