



Fabchem China Limited

Company registration number: 200413128G

Financial Statements for the Second Quarter ended 30 September 2010 (“2Q2011”)

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 2010 to 30 Sept 2010 RMB'000	3 months from 1 Jul 2009 to 30 Sept 2009 RMB'000	Increase/ (Decrease) %	6 months from 1 Apr 2010 to 30 Sept 2010 RMB'000	6 months from 1 Apr 2009 to 30 Sept 2009 RMB'000	Increase/ (Decrease) %
Revenue	90,892	84,879	7.1	194,192	168,043	15.6
Cost of sales	(63,017)	(56,182)	12.2	(133,002)	(104,044)	27.8
Gross profit	27,875	28,697	(2.9)	61,190	63,999	(4.4)
<u>Other Items of Income</u>						
Interest income	60	55	9.1	224	113	98.2
Other credits – Note (i)	824	97	749.5	981	89	1002.2
<u>Other Items of Expense</u>						
Distribution costs	(5,080)	(4,201)	20.9	(10,509)	(7,948)	32.2
Administrative expenses	(8,714)	(7,074)	23.2	(18,604)	(14,746)	26.2
Financial costs	(570)	(553)	3.1	(1,328)	(851)	56.1
Other charges– Note (ii)	(911)	-	N.M.	(910)	(600)	51.7
Profit before income tax	13,484	17,021	(20.8)	31,044	40,056	(22.5)
Income tax expense	(4,669)	(6,185)	(24.5)	(9,676)	(9,614)	0.6
Profit attributable to shareholders	8,815	10,836	(18.7)	21,368	30,442	(29.8)
Note (i) – Other Credits						
Foreign exchange adjustment gain	-	87	N.M.	-	-	-
Gain on sale of fixed assets	11	10	10.0	11	89	(87.6)
Government Grant	813	-	N.M.	813	-	N.M.
Write back of allowance for impairment on trade receivables	-	-	N.M.	157	-	N.M.
	824	97	749.5	981	89	1002.2
Note (ii) – Other Charges						
Foreign exchange adjustment loss	(911)	-	N.M.	(910)	(600)	51.7
	(911)	-	N.M.	(910)	(600)	51.7

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

Amortisation expenses	(424)	(1,066)	(60.2)	(848)	(1,328)	(36.1)
Depreciation expenses	(4,424)	(3,627)	22.0	(7,859)	(6,054)	29.8
Foreign exchange adjustment gain / (loss)	(911)	87	(1147.1)	(910)	(600)	51.7
Gain on sale of fixed assets	11	10	10.0	11	89	(87.6)
Interest expense	(570)	(553)	3.1	(1,328)	(851)	56.1
Interest income from bank deposits	60	55	9.1	224	113	98.2
Write back of allowance for impairment on trade receivables	-	-	-	157	-	N.M.

1(a)(ii) A statement of comprehensive income (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 2010 to 30 Sept 2010 RMB'000	3 months from 1 Jul 2009 to 30 Sept 2009 RMB'000	Increase/(Decrease) %	6 months from 1 Apr 2010 to 30 Sept 2010 RMB'000	6 months from 1 Apr 2009 to 30 Sept 2009 RMB'000	Increase/(Decrease) %
Profit attributable to shareholders	8,815	10,836	(18.7)	21,368	30,442	(29.8)
Foreign currency translation difference	772	187	312.8	725	739	(1.9)
Total comprehensive income for the period	<u>9,587</u>	<u>11,023</u>	(13.0)	<u>22,093</u>	<u>31,181</u>	(29.1)

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 2010 RMB'000	31 March 2010 RMB'000	30 September 2010 RMB'000	31 March 2010 RMB'000
ASSETS				
Non-current assets :				
Property, plant and equipment	181,749	185,840	325	343
Intangible assets	6,972	7,403	-	-
Other assets, non-current	53,844	54,261	-	-
Deferred tax assets	3,208	3,627	-	-
Investment in subsidiary	-	-	114,732	110,185
Total non-current assets	245,773	251,131	115,057	110,528
Current assets :				
Inventories	40,663	47,763	-	-
Trade and other receivables (Note 1)	101,116	99,124	13,233	26,323
Other assets , current	23,487	27,653	146	101
Cash and cash equivalents	106,616	107,255	893	285
Total current assets	271,882	281,795	14,272	26,709
Total assets	517,655	532,926	129,329	137,237
EQUITY AND LIABILITIES				
Capital and reserves :				
Share capital	116,849	116,849	116,849	116,849
Retained earnings	218,784	205,844	6,089	18,139
Other reserves	37,077	33,811	2,766	(2,506)
Total equity	372,710	356,504	125,704	132,482
Non-Current liabilities :				
Deferred tax liabilities	5,695	5,910	-	-
Other financial liabilities	138	171	138	171
Total non-current liabilities	5,833	6,081	138	171
Current liabilities :				
Income tax payable	2,649	7	-	-
Trade and other payables (Note 2)	93,122	123,257	3,406	4,509
Other financial liabilities, current	40,750	43,681	81	75
Other liabilities	2,591	3,396	-	-
Total current liabilities	139,112	170,341	3,487	4,584
Total liabilities	144,945	176,422	3,625	4,755
Total liabilities and equity	517,655	532,926	129,329	137,237
Note 1				
Trade receivables	100,210	98,040	-	-
Dividend receivable from subsidiary	-	-	13,233	26,323
Other receivables	906	1,084	-	-
Total trade and other receivables	101,116	99,124	13,233	26,323
Note 2				
Trade payables and accruals	59,881	71,544	2,969	4,412
Other payables	33,241	51,713	437	97
Total trade and other payables	93,122	123,257	3,406	4,509

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

Amount repayable in one year or less, or on demand

(RMB'000)

30 September 2010		31 March 2010	
Secured	Unsecured	Secured	Unsecured
10,081	30,669	3,075	40,606

Amount repayable after one year

(RMB'000)

30 September 2010		31 March 2010	
Secured	Unsecured	Secured	Unsecured
138	-	171	-

Details of any collateral

As at 30 September 2010, the Group has secured borrowings comprising a 7-year finance lease of approximately RMB 219,000 for the purchase of a motor vehicle and aggregate secured short-term bank loans of RMB 10 million. Unsecured borrowings relate to a loan from a third party of RMB 15.7 million and aggregate unsecured short-term bank loans of RMB 15 million.

The finance lease is secured against the motor vehicle with net book value of approximately RMB 320,000, and bears effective interest rate of 6.61% per annum.

Secured short-term bank loans are secured using Hebei Yinguang Chemical Co., Ltd's ("Hebei Yinguang") land and buildings with net book value of approximately RMB 6.7 million. The secured short-term bank loans' interest rate is 6.903% per annum.

Unsecured borrowing of RMB 30.7 million relates to a loan from Linxi County Nitrogenous Fertilizer Co., Ltd of RMB 15.7 million and short-term bank loans of RMB 15.0 million. A portion of the unsecured loan from Linxi County Nitrogenous Fertilizer Co., Ltd has an interest rate of 12% per annum. Unsecured short-term bank loans of RMB 15 million are guaranteed by a corporate guarantee of Shandong Yinguang Chemical Group Co., Ltd, the former holding company of Hebei Yinguang, and by the Ministry of Finance of Linxi County. The unsecured short-term bank loans' interest rates range between 5.841% and 12.654% 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 2010 to 30 Sept 2010 RMB'000	3 months from 1 Jul 2009 to 30 Sept 2009 RMB'000	6 months from 1 Apr 2010 to 30 Sept 2010 RMB'000	6 months from 1 Apr 2009 to 30 Sept 2009 RMB'000
Cash flows from operating activities				
Profit before income tax	13,484	17,021	31,044	40,056
Adjustments for :				
Amortisation expenses	424	1,066	848	1,328
Depreciation expense	4,424	3,627	7,859	6,054
Gain on sale of fixed assets	(11)	(10)	(11)	(89)
Interest income	(60)	(55)	(224)	(113)
Interest expenses	570	553	1,328	851
Write back of allowance for impairment on trade receivables	-	-	(157)	-
Net effect of exchange rate changes in translation of financial statements of Parent	758	160	712	712
Operating profit before working capital changes	19,589	22,362	41,399	48,799
Inventories	(2,770)	6,139	7,100	2,298
Trade and other receivables	16,990	(1,099)	(1,564)	(7,268)
Other assets	(1,816)	2,037	4,166	975
Trade and other payables	(20,447)	(3,668)	(30,135)	(36,788)
Other liabilities	(1,687)	665	(805)	721
Cash generated from operations	9,859	26,436	20,161	8,737
Income tax paid	(3,199)	(7,241)	(7,101)	(10,958)
Net cash from / (used in) operating activities	6,660	19,195	13,060	(2,221)
Cash flows from investing activities				
Proceeds from sale of property, plant and equipment	100	-	100	384
Purchase of property, plant and equipment	(2,505)	(8,049)	(3,844)	(12,466)
Interest received	60	55	224	113
Net cash used in investing activities	(2,345)	(7,994)	(3,520)	(11,969)
Cash flows from financing activities				
Payment of dividends	(5,887)	-	(5,887)	-
Repayment of finance lease obligation	(8)	(11)	(27)	(13)
(Repayment) / increase in short-term bank loans	(2,000)	-	4,000	(3,000)
Repayment of third party loan	(5,644)	(443)	(6,937)	(1,272)
Interest paid	(570)	(553)	(1,328)	(851)
Net cash used in financing activities	(14,109)	(1,007)	(10,179)	(5,136)
Net (decrease)/increase in cash	(9,794)	10,194	(639)	(19,326)
Cash at beginning of the period	116,410	83,101	107,255	112,621
Cash at end of the period	106,616	93,295	106,616	93,295

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
Group (RMB'000)					
Balance at 1 April 2010	116,849	33,360	451	205,844	356,504
Appropriation for the period	-	1,461	-	(1,461)	-
Total comprehensive income for the period	-	-	(47)	12,553	12,506
Balance at 30 June 2010	116,849	34,821	404	216,936	369,010
Appropriation for the period	-	1,080	-	(1,080)	-
Dividend paid	-	-	-	(5,887)	(5,887)
Total comprehensive income for the period	-	-	772	8,815	9,587
Balance at 30 September 2010	116,849	35,901	1,176	218,784	372,710
Balance at 1 April 2009	116,849	28,132	(375)	163,859	308,465
Appropriation for the period	-	1,817	-	(1,817)	-
Total comprehensive income for the period	-	-	552	19,606	20,158
Balance at 30 June 2009	116,849	29,949	177	181,648	328,623
Appropriation for the period	-	1,735	-	(1,735)	-
Total comprehensive income for the period	-	-	187	10,836	11,023
Balance at 30 September 2009	116,849	31,684	364	190,749	339,646

	Share capital	Foreign exchange translation reserve	Retained earnings/ (Accumulated losses)	Total
Company (RMB'000)				
Balance at 1 April 2010	116,849	(2,506)	18,139	132,482
Total comprehensive income/(loss) for the period	-	(449)	(2,643)	(3,092)
Balance at 30 June 2010	116,849	(2,955)	15,496	129,390
Dividend paid	-	-	(5,887)	(5,887)
Total comprehensive income/(loss) for the period	-	5,721	(3,520)	2,201
Balance at 30 September 2010	116,849	2,766	6,089	125,704
Balance at 1 April 2009	116,849	(12,342)	8,494	113,001
Total comprehensive income/(loss) for the period	-	5,501	(3,435)	2,066
Balance at 30 June 2009	116,849	(6,841)	5,059	115,067
Total comprehensive income/(loss) for the period	-	2,758	(2,527)	231
Balance at 30 September 2009	116,849	(4,083)	2,532	115,298

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.

	Group	
	30 September 2010	31 March 2010
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 other 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 2010	3 months ended 30 Sept 2009	6 months ended 30 Sept 2010	6 months ended 30 Sept 2009
	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	3.77	4.63	9.13	13.01
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 2010	31 March 2010	30 Sept 2010	31 March 2010
	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	159.28	152.35	53.72	56.62
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

Revenue for the 3-month period ended 30 September 2010 ("2Q2011") increased by approximately RMB 6.0 million or 7.1%, from RMB 84.9 million of the 3-month period ended 30 September 2009 ("2Q2010") to RMB 90.9 million in 2Q2011. The increase in revenue during 2Q2011 was mainly attributed to higher sales volume of ammonium nitrate, which was partially offset by the decrease in sales of explosives devices and industrial fuse and initiating explosive devices.

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; (c) industrial detonators such as non-electric detonators and piston non-electric detonators; and (d) ammonium nitrate.

The breakdown and comparison of our revenue by the above product types and geographical segments between 2Q2011 and 2Q2010 and between 6M2011 and 6M2010 are as follows:

	2Q2011		2Q2010		% change
	RMB'000	%	RMB'000	%	
Explosives devices	11,533	12.7	21,399	25.2	(46.1)
Industrial fuse and initiating explosive devices	24,617	27.1	29,544	34.8	(16.7)
Industrial detonators	17,864	19.7	17,554	20.7	1.8
Ammonium Nitrate	36,837	40.5	16,189	19.1	127.5
Others ⁽¹⁾	41	-	193	0.2	(78.8)
	90,892	100.0	84,879	100.0	7.1

Within PRC	82,819	91.1	74,112	87.3	11.7
<u>Outside PRC</u>					
Sales through export distributors ⁽²⁾	3,615	4.0	1,086	1.3	232.9
Australia	2,976	3.3	9,477	11.2	(68.6)
Others	1,482	1.6	204	0.2	626.5
	8,073	8.9	10,767	12.7	(25.0)
	90,892	100.0	84,879	100.0	7.1

	6M2011		6M2010		% change
	RMB'000	%	RMB'000	%	
Explosives devices	37,448	19.3	39,775	23.7	(5.9)
Industrial fuse and initiating explosive devices	56,438	29.1	60,160	35.8	(6.2)
Industrial detonators	38,159	19.6	35,855	21.3	6.4
Ammonium Nitrate	61,988	31.9	31,966	19.0	93.9
Others ⁽¹⁾	159	0.1	287	0.2	(44.6)
	194,192	100.0	168,043	100.0	15.6
Within PRC	169,619	87.3	147,269	87.7	15.2
<u>Outside PRC</u>					
Sales through export distributors ⁽²⁾	3,615	1.9	2,206	1.3	63.9
Australia	15,432	8.0	16,685	9.9	(7.5)
Others	5,526	2.8	1,883	1.1	193.5
	24,573	12.7	20,774	12.3	18.3
	194,192	100.0	168,043	100.0	15.6

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)

a) **Sales within PRC**

During 2Q2011, sales within PRC increased by approximately RMB 8.7 million or 11.7% as compared to 2Q2010. The increase was mainly due to the higher sales of ammonium nitrate which grew by RMB 20.6 million or 127.5%. However, our domestic PRC sales of most of our other products decreased during the current quarter. Domestic sales of boosters, seismic charges, detonating cords and piston non-electric detonators decreased by approximately RMB 2.3 million, RMB 1.2 million, RMB 6.7 million and RMB 1.8 million respectively.

The closure of a customer's mine due to a fire accident in July 2010 also resulted in neighbouring mines to be closed for inspections and maintenance. Coupled with the rainy season (with more heavy rains in 2Q2011 as compared to 2Q2010), these events affected mining operations which contributed to the decrease in the sales of our traditional product groups (explosive devices, industrial fuse and initiating explosive devices and industrial detonators).

For the 6-months ended 30 September 2010, sales within PRC increased by approximately RMB 22.3 million or 15.2% from RMB 147.3 million in 6M2010 to RMB 169.6 million in 6M2011.

b) **Sales through export distributors, Australia and other customers**

The fluctuations in sales revenue were mainly due to the different shipping schedules determined by our customers. During 2Q2011, sales of explosive devices were mainly affected by the shipping schedules of our Australia customers.

All domestic PRC sales contracts and export applications sought by export agents have been approved by the Ministry of Industry and Information Technology, Department of Work Safety ("MIIT").

Gross profit margin

During 2Q2011, the Group's gross profit margin decreased marginally by approximately 3.1%, from 33.8% in 2Q2010 to 30.7% in 2Q2011. The decrease in gross profit margin was mainly due to the higher proportion of lower-margin products (ammonium nitrate) in our revenue. Sales of ammonium nitrate increased by 127.5% as compared to the previous corresponding quarter, and represented approximately 40.5% of our 2Q2011's revenue as compared to only 19.1% of our 2Q2010's revenue.

For 6M2011, the Group's gross profit margin decreased from 6M2010's 38.1% to 6M2011's 31.5%. The decrease was mainly attributed to the higher proportion of lower-margin products (ammonium nitrate) in our revenue. Rising raw materials prices also contributed to the decrease in the Group's gross profit margin. During the current financial period reported on, some of our main raw materials prices increased by approximately 20% as compared to the previous corresponding period.

Interest income / (Finance costs)

For 2Q2011 and 6M2011, interest income increased marginally by approximately RMB 5,000 and RMB 111,000 respectively.

Finance costs also increased marginally by approximately RMB 17,000 and RMB 477,000, mainly due to the increase in bank loans for Hebei Yinguang.

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)**

Other credits / (Other charges)

For 2Q2011, other credits included a gain on sale of fixed asset of RMB 11,000 and a government grant of approximately RMB 813,000. For 6M2011, other credits also included a write back of allowance for impairment on trade receivables of approximately RMB 157,000.

Other charges relate to foreign exchange adjustment losses. Foreign exchange adjustment losses arose mainly from foreign exchange rate fluctuation among Renminbi (RMB), United States Dollar (US\$) and Singapore Dollars (S\$).

Operating expenses

Distribution costs increased by approximately RMB 0.9 million or 20.9% to RMB 5.1 million in 2Q2011 from RMB 4.2 million in 2Q2010. As mentioned in the first quarter announcement on 13 August 2010, transportation costs increased as there were increased trips directly to end customers instead of distributors in the region.

Administrative expenses rose by approximately RMB 1.6 million or 23.2% to RMB 8.7 million in 2Q2011 from RMB 7.1 million in 2Q2010. The increase in administrative expenses was mainly due to the commencement of the new production facilities as our subsidiary was also required to pay the additional insurance, land use rights tax and property tax during 2Q2011. No such expenses were incurred during 2Q2010.

For 6M2011, distribution costs increased by approximately RMB 2.6 million or 32.2% from 6M2010's RMB 7.9 million to 6M2011's RMB 10.5 million and administrative expenses increased by approximately RMB 3.9 million or 26.2% from 6M2010's RMB 14.7 million to 6M2011's RMB 18.6 million. The increase was mainly due to the reasons explained in the preceding paragraphs.

Income tax expenses

The effective tax rate for 2Q2011 and 6M2011 was 34.6% and 31.2% (2Q2010: 36.3% ; 6M2010 : 24.0%). This is higher than the PRC concessionary tax rate of 25.0% (6M2010: 12.5%) mainly due to an under-provision of prior year tax upon finalisation of tax by the PRC tax authorities of approximately RMB 0.6 million and corporate expenses incurred in Singapore. During 2Q2010, there was a payment of RMB 3.8 million being the under-provision of prior-years tax upon finalisation of tax by the PRC tax authorities, thus resulted in a higher effective tax rate of 36.3%.

Balance sheet

Property, plant and equipment decreased by approximately RMB 4.1 million, mainly due to the depreciation charge of approximately RMB 7.9 million during the 6 months period, which was partially offset by the purchase of miscellaneous equipments and machineries.

Intangible assets comprised of the Group's licences and customer relationships which arose during the purchase price allocation ("PPA") exercise for the acquisition of Hebei Yinguang during FY2010. Intangible assets decreased by approximately RMB 0.4 million mainly due to the amortisation charges during the current 6 months period.

Other assets, non-current relate to the Group's land use rights. Land use rights decreased by approximately RMB 0.4 million due to the amortisation charge during the current 6 months period.

Deferred tax assets relate to the deferred tax difference for allowance for impairment and provision for safety expenses.

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 (Cont'd)

Inventories, trade and other receivables, other assets and cash and cash equivalents, represented approximately 15.0%, 37.2%, 8.6% and 39.2% of our total current assets as at 30 September 2010.

Inventories decreased by approximately RMB 7.1 million or 14.9% from 31 March 2010's RMB 47.8 million to 30 September 2010's RMB 40.7 million. The decrease was mainly due to the usage of raw materials and sales of finished goods during the current 6 months period.

Trade and other receivables increased marginally by approximately RMB 2.0 million or 2.0%.

Other assets, current comprising the Group's prepayments, decreased by approximately RMB 4.2 million or 15.1% to RMB 23.5 million as at 30 September 2010.

As at 30 September 2010, our current liabilities comprised of income tax payable of RMB 2.6 million, trade and other payables of approximately RMB 93.1 million, other financial liabilities of approximately RMB 40.8 million and other liabilities of RMB 2.6 million. Non-current liabilities comprised of deferred tax liabilities of RMB 5.7 million and non-current portion of the finance lease obligation of RMB 0.1 million.

Trade and other payables decreased by approximately RMB 30.1 million mainly due to the payment of a land use right, repayment of trade creditors and reduction in salary payable to employees during the current 6 months period.

As at 30 September 2010, other current financial liabilities comprised of bank loans of RMB 25.0 million, third party loan of RMB 15.7 million and current portion of finance lease obligation of approximately RMB 81,000. Bank loans increased by RMB 4.0 million from RMB 21.0 million as at 30 March 2010 to RMB 25.0 million as at 30 September 2010. During the 6 months ended 30 September 2010, the Group repaid approximately RMB 6.9 million of third party loan.

Other liabilities of RMB 2.6 million relate to the Group's advances from customers.

Deferred tax liabilities of RMB 5.7 million relate to the deferred tax difference upon the finalisation of the PPA exercise for the acquisition of Hebei Yinguang

The current and non-current portions of the finance lease obligation of RMB 81,000 and RMB 0.1 million respectively relate to a 7-year finance lease secured against a motor vehicle with net book value of approximately RMB 320,000 as at 30 September 2010, which bears effective interest rate of 6.61% per annum.

Cash flow

For the 3 months ended 30 September 2010, the Group recorded net cash generated from operating activities of approximately RMB 6.7 million, net cash used in investing and financing activities of approximately RMB 2.3 million and RMB 14.1 million, respectively.

For the current 6 months ended 30 September 2010, the Group recorded net cash generated from operating activities of approximately RMB 13.1 million, net cash used in investing and financing activities of approximately RMB 3.5 million and RMB 10.2 million respectively.

The cash outflow in investing activities was mainly due to the purchase of miscellaneous property, plant and equipment. The cash outflow in financing activities was mainly for the payment of dividend during 2Q2011 of approximately RMB 5.9 million and the repayment of third party loan.

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.**

In September 2010, the Group announced that it is adding new detonating cord facilities using Dyno Nobel's technology to optimise its product sales mix in response to new market trends. Fabchem's existing detonating cords production facilities have been operating at near-full capacity with an annual production output of 50 million meters. The additional production of detonating cords is expected to commence in mid FY2012, bringing the Group's annualised production capacity to approximately 80 million meters. The related investment is approximately RMB 30.0 million and will be financed by internally-generated funds.

The maiden sale of boosters to Dyno Nobel Australia, on an OEM basis, has been well-received and sales are expected to increase progressively.

Looking beyond the short term horizon, the Group retains a cautious optimism about its longer term prospects. The Group continues to adopt a prudent outlook for FY2011, during which it intends to continue to focus on costs containment and market diversification.

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 2nd 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 NOVEMBER 2010**