



## Fabchem China Limited

Company registration number : 200413128G

Financial Statements for the 1<sup>st</sup> Quarter ended 30 June 2011 (“1Q2012”)

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

1(a)(i) 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 2011 RMB'000	3 months ended 30 June 2010 RMB'000	
<b>Revenue</b>	137,780	103,300	33.4
Cost of sales	(95,708)	(69,985)	36.8
<b>Gross profit</b>	42,072	33,315	26.3
<b><u>Other Items of Income</u></b>			
Interest income	238	164	45.1
Other credits – Note (i)	1,417	158	796.8
<b><u>Other Items of Expense</u></b>			
Distribution costs	(8,868)	(5,429)	63.3
Administrative expenses	(12,279)	(9,890)	24.2
Finance costs	(660)	(758)	(12.9)
Other charges – Note (ii)	(347)	-	N.M.
<b>Profit before income tax</b>	21,573	17,560	22.9
Income tax expense	(6,319)	(5,007)	26.2
<b>Profit attributable to shareholders</b>	15,254	12,553	21.5

#### Note (i) – Other Credits

Gain on disposal of property, plant and equipment	3	-	N.M.
Foreign exchange adjustment gain	-	1	N.M.
Government grant	1,414	-	N.M.
Write back of allowance for impairment on trade receivables	-	157	N.M.
	1,417	158	796.8

#### Note (ii) – Other Charges

Foreign exchange adjustment loss	(347)	-	N.M.
	(347)	-	N.M.

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

Amortisation expenses	(456)	(424)	7.5
Depreciation expenses	(4,091)	(3,435)	19.1
Foreign exchange adjustment (loss)/gain	(347)	1	(34800.0)
Gain on disposal of property, plant and equipment	3	-	N.M.
Interest expense	(660)	(758)	(12.9)
Interest income from bank deposits	238	164	45.1
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.

	<b>Group</b>		<b>Increase/ (Decrease)</b>
	<b>3 months ended 30 June 2011 RMB'000</b>	<b>3 months ended 30 June 2010 RMB'000</b>	
<b>Net profit attributable to shareholders</b>	15,254	12,553	21.5
Foreign currency translation difference	182	(47)	(487.2)
<b>Total comprehensive income for the period</b>	<u>15,436</u>	<u>12,506</u>	23.4

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 2011 RMB'000	31 March 2011 RMB'000	30 June 2011 RMB'000	31 March 2011 RMB'000
<b>ASSETS</b>				
<b>Non-current assets :</b>				
Property, plant and equipment	177,655	181,277	297	300
Intangible assets	6,325	6,541	-	-
Other assets, non-current	53,060	53,300	-	-
Deferred tax assets	3,785	4,110	-	-
Investment in subsidiary	-	-	117,881	117,175
<b>Total non-current assets</b>	<b>240,825</b>	<b>245,228</b>	<b>118,178</b>	<b>117,475</b>
<b>Current assets :</b>				
Inventories	39,355	46,534	-	-
Trade and other receivables (Note 1)	130,069	116,159	27,549	29,186
Other assets , current	25,833	30,302	62	73
Cash and cash equivalents	110,321	101,053	437	712
<b>Total current assets</b>	<b>305,578</b>	<b>294,048</b>	<b>28,048</b>	<b>29,971</b>
<b>Total assets</b>	<b>546,403</b>	<b>539,276</b>	<b>146,226</b>	<b>147,446</b>
<b>EQUITY AND LIABILITIES</b>				
<b>Capital and reserves :</b>				
Share capital	116,849	116,849	116,849	116,849
Retained earnings	244,997	231,074	16,844	20,451
Other reserves	40,424	38,911	6,264	5,377
<b>Total equity</b>	<b>402,270</b>	<b>386,834</b>	<b>139,957</b>	<b>142,677</b>
<b>Non-Current liabilities :</b>				
Deferred tax liabilities	5,477	5,380	-	-
Other financial liabilities	76	97	76	97
<b>Total non-current liabilities</b>	<b>5,553</b>	<b>5,477</b>	<b>76</b>	<b>97</b>
<b>Current liabilities :</b>				
Income tax payable	3,619	3,068	-	-
Trade and other payables (Note 2)	97,468	102,143	6,106	4,587
Other financial liabilities, current	35,467	39,515	87	85
Other liabilities	2,026	2,239	-	-
<b>Total current liabilities</b>	<b>138,580</b>	<b>146,965</b>	<b>6,193</b>	<b>4,672</b>
<b>Total liabilities</b>	<b>144,133</b>	<b>152,442</b>	<b>6,269</b>	<b>4,769</b>
<b>Total liabilities and equity</b>	<b>546,403</b>	<b>539,276</b>	<b>146,226</b>	<b>147,446</b>
<b>Note 1</b>				
Trade receivables	128,204	114,936	-	-
Amount receivable from subsidiary	-	-	27,549	29,186
Other receivables	1,865	1,223	-	-
Trade and other receivables	130,069	116,159	27,549	29,186
<b>Note 2</b>				
Trade payables and accruals	70,331	72,779	5,606	4,469
Other payables	27,137	29,364	500	118
Trade and other payables	97,468	102,143	6,106	4,587

**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 2011</b>		<b>31 March 2011</b>	
<b>Secured</b>	<b>Unsecured</b>	<b>Secured</b>	<b>Unsecured</b>
10,087	25,380	10,085	29,430

**Amount repayable after one year**

**(RMB'000)**

<b>30 June 2011</b>		<b>31 March 2011</b>	
<b>Secured</b>	<b>Unsecured</b>	<b>Secured</b>	<b>Unsecured</b>
76	-	97	-

**Details of any collateral**

As at 30 June 2011, the Group has secured borrowings comprising a 7-year finance lease of approximately RMB 163,000 for the purchase of a motor vehicle and aggregate secured short-term bank loans of RMB 10 million. Unsecured borrowings relates to a loan from a third party of RMB 10.4 million and an unsecured short-term bank loan of RMB 15 million.

The finance lease is secured against the motor vehicle with net book value of approximately RMB 284,000, 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 17.2 million and a corporate guarantee by Shandong Yinguang Chemical Group Co., Ltd ("Yinguang Chemical Group"), the former holding company of Hebei Yinguang. The secured short-term bank loan's interest rate is 8.203% per annum.

Unsecured borrowing of RMB 25.4 million relates to a loan from Linxi County Nitrogenous Fertilizer Co., Ltd of RMB 10.4 million and short-term bank loan of RMB 15.0 million. Portion of the unsecured loan from Linxi County Nitrogenous Fertilizer Co., Ltd has an interest rate of 12% per annum. Unsecured short-term bank loan of RMB 15 million is guaranteed by corporate guarantee of Yinguang Chemical Group. The unsecured short-term bank loan's interest rate is 7.2565% 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 2011 RMB'000</b>	<b>3 months ended 30 June 2010 RMB'000</b>
<b>Cash flows from operating activities</b>		
Profit before income tax	21,573	17,560
Adjustments for :		
Amortisation expenses	456	424
Depreciation expense	4,091	3,435
Gain on disposal of property, plant and equipment	(3)	-
Interest income	(238)	(164)
Interest expenses	660	758
Write back of allowance for impairment on trade receivables	-	(157)
Net effect of exchange rate changes in translation of financial statements of Parent	179	(46)
Operating profit before working capital changes	26,718	21,810
Inventories	7,179	9,870
Trade and other receivables	(13,910)	(18,554)
Other assets	4,469	5,982
Trade and other payables	(4,675)	(9,688)
Other liabilities	(213)	882
Cash generated from operations	19,568	10,302
Income tax paid	(5,346)	(3,902)
<b>Net cash from operating activities</b>	<b>14,222</b>	<b>6,400</b>
<b>Cash flows from investing activities</b>		
Proceeds from sale of property, plant and equipment	85	-
Purchase of property, plant and equipment	(548)	(1,339)
Interest received	238	164
<b>Net cash used in investing activities</b>	<b>(225)</b>	<b>(1,175)</b>
<b>Cash flows from financing activities</b>		
Repayment of short-term bank loan	-	6,000
Repayment of finance lease obligation	(19)	(19)
Repayment of third party loan	(4,050)	(1,293)
Interest paid	(660)	(758)
<b>Net cash (used in) / from financing activities</b>	<b>(4,729)</b>	<b>3,930</b>
Net increase in cash	9,268	9,155
Cash at beginning of the period	101,053	107,255
<b>Cash at end of the period</b>	<b>110,321</b>	<b>116,410</b>

**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 currency translation reserves	Retained earnings	Total
<b>Group (RMB'000)</b>					
Balance at 1 April 2011	116,849	37,567	1,344	231,074	386,834
Appropriation for the period	-	1,331	-	(1,331)	-
Total comprehensive income for the period	-	-	182	15,254	15,436
Balance at 30 June 2011	<u>116,849</u>	<u>38,898</u>	<u>1,526</u>	<u>244,997</u>	<u>402,270</u>
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	<u>116,849</u>	<u>34,821</u>	<u>404</u>	<u>216,936</u>	<u>369,010</u>

	Share capital	Foreign currency translation reserves	Retained earnings	Total
<b>Company (RMB'000)</b>				
Balance at 1 April 2011	116,849	5,377	20,451	142,677
Total comprehensive income/(loss) for the period	-	887	(3,607)	(2,720)
Balance at 30 June 2011	<u>116,849</u>	<u>6,264</u>	<u>16,844</u>	<u>139,957</u>
Balance at 1 April 2010	116,849	(2,506)	18,139	132,482
Total comprehensive loss for the period	-	(449)	(2,643)	(3,092)
Balance at 30 June 2010	<u>116,849</u>	<u>(2,955)</u>	<u>15,496</u>	<u>129,390</u>

**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 2011</b>	<b>31 March 2011</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 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.**

	<b>Group</b>	
	<b>3 months ended 30 June 2011</b>	<b>3 months ended 30 June 2010</b>
	<b>RMB cents</b>	<b>RMB cents</b>
Earnings per ordinary share for the year based on net profit attributable to shareholders :		
Based on weighted average number of ordinary shares in issue	6.52	5.36
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.**

	<b>Group</b>		<b>Company</b>	
	<b>30 June 2011</b>	<b>31 March 2011</b>	<b>30 June 2011</b>	<b>31 March 2011</b>
	<b>RMB cents</b>	<b>RMB cents</b>	<b>RMB cents</b>	<b>RMB cents</b>
Net asset value per ordinary share based on the issued shares at the end of the financial year	171.91	165.31	59.81	60.97
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

Revenue for the 3-month period ended 30 June 2011 ("1Q2012") increased by approximately RMB 34.5 million or 33.4%, from RMB 103.3 million of the 3-month period ended 30 June 2010 ("1Q2011") to RMB 137.8 million in 1Q2012. The increase was mainly due to the general increase in revenue across most of our key product and market segments.

Our products can be categorised mainly into (a) explosive devices such as boosters and seismic 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 1Q2012 and 1Q2011 are as follows:

	Group				% change
	3 months ended 30 June 2011 ("1Q2012")		3 months ended 30 June 2010 ("1Q2011")		
	RMB'000	%	RMB'000	%	
Explosive devices	32,028	23.2	25,915	25.1	23.6
Industrial fuse and initiating explosive devices	29,850	21.7	31,821	30.8	(6.2)
Industrial detonators	24,914	18.1	20,295	19.7	22.8
Ammonium Nitrate	50,827	36.9	25,151	24.3	102.1
Others <sup>(1)</sup>	161	0.1	118	0.1	36.4
	<b>137,780</b>	<b>100.0</b>	<b>103,300</b>	<b>100.0</b>	<b>33.4</b>

	Group				% change
	3 months ended 30 June 2011 ("1Q2012")		3 months ended 30 June 2010 ("1Q2011")		
	RMB'000	%	RMB'000	%	
Within PRC	110,843	80.4	86,800	84.0	27.7
<u>Outside PRC</u>					
Sales through export distributors <sup>(2)</sup>	3,478	2.5	-	-	N.M.
Australia	19,669	14.3	12,456	12.1	57.9
Others	3,790	2.8	4,044	3.9	(6.3)
	<b>26,937</b>	<b>19.6</b>	<b>16,500</b>	<b>16.0</b>	<b>63.3</b>
	<b>137,780</b>	<b>100.0</b>	<b>103,300</b>	<b>100.0</b>	<b>33.4</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.

a) Sales within PRC

Sales within PRC increased by approximately RMB 24.0 million or 27.7% to RMB 110.8 million in 1Q2012, from RMB 86.8 million in the previous corresponding period. The increase was mainly due to the increased in sales of ammonium nitrate.

Sales of ammonium nitrate increased by RMB 25.7 million or 102.1% to 1Q2012's RMB 50.8 million from RMB 25.2 million the previous corresponding quarter. The increase was mainly due to the better market conditions for the explosives market, which is the primary use of our ammonium nitrate.

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)**

- b) Sales through export distributors and other countries

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

- c) Sales to Australia

Sales to Australia increased by approximately RMB 7.2 million or 57.9%. The increase was mainly due to the increase in sales of boosters to Dyno Nobel Australia of approximately RMB 11.6 million from 1Q2011's RMB 0.8 million to 1Q2012's RMB 12.4 million.

All local 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**

Gross profit margin for the Group decreased marginally by approximately 1.8 percentage points, from 32.3% during 1Q2011 to 30.5% during 1Q2012. The decrease is mainly due to the higher proportion of lower-margin product, in particular ammonium nitrate, in the product sales-mix as compared to higher-margin products such as industrial fuse and initiating explosive devices and industrial detonators. Rising raw materials prices is also causing the gross profit margin to deteriorate.

**Interest income / (Finance costs)**

Interest income increased by approximately RMB 74,000 mainly due to increased in bank deposits and finance costs decreased by approximately RMB 98,000 mainly due to the decreased in third party loan during the current period under review.

**Other credits / (Other charges)**

Other credits for the current quarter ended 30 June 2011 comprise gain on disposal of property, plant and equipment of approximately RMB 3,000 and government grant of approximately RMB 1.4 million. For the previous corresponding quarter ended 30 June 2010, other credits comprise of foreign exchange adjustment gain of approximately RMB 1,000 and a write-back of allowance for impairment on trade receivables of approximately RMB 157,000.

Government grant relates to a grant by Hebei Province, Linxi County's government for our subsidiary, Hebei Yinguang Chemical Co., Ltd..

Other charges for the current quarter ended 30 June 2011 relates to the foreign exchange adjustment loss incurred by the Group.

Foreign exchange adjustment gain or loss arises from foreign exchange rate changes between Renminbi (RMB), US Dollars and Singapore Dollars.

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**

Distribution costs increased by approximately RMB 3.4 million or 63.3% to RMB 8.9 million in 1Q2012 from RMB 5.4 million in 1Q2011 which is in line with the increase in our revenue and an increase in staff costs. There was also an increase in port charges and transportation costs due to the increase in overseas sales.

Administrative expenses rose by approximately RMB 2.4 million or 24.2% to RMB 12.3 million in 1Q2012 from RMB 9.9 million in 1Q2011. These increased administrative expenses correlate with the improvement of our Group's revenue, in particular, the provision for safety expenses and the provision for executive directors' profit sharing expenses. Staff costs also increased during 1Q2012 as compared to 1Q2011.

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**

The effective tax rate for 1Q2012 was 29.3% (1Q2011: 28.5%). This is higher than the PRC concessionary tax rate of 25.0% mainly due to the Singapore holding company's non-deductible expenses.

#### **Balance sheet**

Property, plant and equipment decreased by approximately RMB 3.6 million, mainly due to the depreciation charge of approximately RMB 4.1 million during the current financial period, which was partially offset by the purchase of miscellaneous equipment 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 0.2 million mainly due to the amortisation charges during the current financial period.

Other assets, non-current relate to the Group's land use rights. Land use rights decreased by approximately RMB 0.2 million due to the amortisation charge during the current financial period.

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

Inventories, trade and other receivables, other assets and cash and cash equivalents, represented approximately 12.9%, 42.6%, 8.3% and 36.2% of our total current assets as at 30 June 2011.

Inventories decreased by approximately RMB 7.2 million or 15.4% from 31 March 2011's RMB 46.5 million to 30 June 2011's RMB 39.4 million. The decrease was mainly due to the sales of finished goods during the current financial period.

Trade and other receivables increased by approximately RMB 13.9 million or 12.0%, mainly due to the increase in sales revenue during the current financial period.

Other assets, current comprising the Group's prepayments, decreased by approximately RMB 4.5 million or 14.7% to RMB 25.8 million as at 30 June 2011. The decrease was mainly due to the receipt of raw materials, prepaid as of 31 March 2011, for production during the current quarter under review.

**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)**

As at 30 June 2011, our current liabilities comprised of income tax payable of RMB 3.6 million, trade and other payables of approximately RMB 97.5 million, other current financial liabilities of approximately RMB 35.5 million and other liabilities of RMB 2.0 million. Non-current liabilities comprised of deferred tax liabilities of RMB 5.5 million and non-current portion of the finance lease obligation of RMB 76,000.

Trade and other payables decreased by approximately RMB 4.7 million mainly due to utilisation of provision for safety expenses and payment to suppliers.

As at 30 June 2011, other current financial liabilities comprised of bank loans of RMB 25.0 million, third party loan of RMB 10.4 million and current portion of finance lease obligation of approximately RMB 87,000. During the current financial period ended 30 June 2011, the Group repaid approximately RMB 4.1 million of third party loan. There is no change to the amount of short-term bank loans as at 30 June 2011 as compared to 31 March 2011.

Other liabilities of RMB 2.0 million relate to the Group's advances from customers.

Deferred tax liabilities of RMB 5.5 million relate mainly 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 87,000 and RMB 76,000 respectively relate to a 7-year finance lease secured against a motor vehicle with net book value of approximately RMB 284,000 as at 30 June 2011, which bears effective interest rate of 6.61% per annum.

**Cash flow**

For the current quarter ended 30 June 2011, the Group has net cash from operating activities of approximately RMB 14.2 million, net cash used in investing activities of approximately RMB 0.2 million and net cash used in financing activities of approximately RMB 4.7 million.

The net cash from operating activities of approximately RMB 14.2 million as compared to approximately RMB 6.4 million during 1Q2011, was mainly due to the improvement in working capital during the current quarter under review.

The net cash used in investing activities of approximately RMB 0.2 million was mainly due to the purchase of miscellaneous property, plant and equipment, partially offset by the interest income received.

The net cash used in financing activities of approximately RMB 4.7 million was mainly due to the repayment of third party loan and interest expenses.

**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.**

*Shareholders Approved Acquisition of Land and Buildings (the “Property”)*

During the Extraordinary General Meeting (“EGM”) held on 28 July 2011, the Shareholders of the Company approved the acquisition of the Property at Fei County, Linyi City, Shandong Province, PRC where the Group’s manufacturing facilities and warehouses (for the manufacture of the Group’s initiation systems products) are located.

The Group has been leasing the Property since 16 November 2004 and the current rental amounts to RMB 8 million per annum. The rental has since ended in June 2011, that is, one calendar month prior to the calendar month in which the EGM was held and shall not be payable thereafter.

In accordance with the agreement for the acquisition of Property, the Group has since paid RMB 1 million to the Vendor upon signing the Agreement. The Group is currently arranging to pay the RMB 9 million that is due upon the approval at the EGM on 28 July 2011.

For further information, please refer to the Circular to Shareholders dated 12 July 2011.

*Moving Ahead*

The increased dependency on energy resources and commodities from a growing global population continues to underscore the strong business fundamentals of our core operating markets. Progressive economic growth within the Asian region, particularly China, will continue to be a key source of demand for mining and infrastructure construction activities.

While managing the macroeconomic factors in its operating markets, the Group will continue to align its product portfolio with market trends and expand its business presence in new and existing markets. Internally, the Group will also step up its focus on enhancing operational efficiency and reducing costs across the whole business.

With prolonged concerns over the debt issues surrounding the western economies, the Group continues to adopt a prudent outlook for FY2012 and retains a cautious optimism about our longer term prospects.

**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/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 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 2011**