



Fabchem China Limited

Company registration number: 200413128G

Financial Statements for the Third Quarter ended 31 December 2011 (“3Q2012”)

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

1(a) An income statement and statement of comprehensive income, or 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 Oct 2011 to 31 Dec 2011 RMB'000	3 months from 1 Oct 2010 to 31 Dec 2010 RMB'000	Increase/ (Decrease) %	9 months from 1 Apr 2011 to 31 Dec 2011 RMB'000	9 months from 1 Apr 2010 to 31 Dec 2010 RMB'000	Increase/ (Decrease) %
Revenue	140,149	127,844	9.6	409,800	322,036	27.3
Cost of sales	(95,538)	(88,482)	8.0	(280,754)	(221,484)	26.8
Gross profit	44,611	39,362	13.3	129,046	100,552	28.3
Other Items of Income						
Interest income	146	173	(15.6)	565	397	42.3
Other credits – Note (i)	3,983	100	3833.0	5,418	1,081	401.2
Other Items of Expense						
Distribution costs	(9,053)	(7,674)	18.0	(26,084)	(18,183)	43.5
Administrative expenses	(12,115)	(11,811)	2.6	(35,880)	(30,415)	18.0
Financial costs	(555)	(587)	(5.5)	(1,932)	(1,915)	0.9
Other charges– Note (ii)	(438)	(205)	113.7	(403)	(1,115)	(63.9)
Profit before income tax	26,579	19,358	37.3	70,730	50,402	40.3
Income tax expense	(7,336)	(6,192)	18.5	(20,307)	(15,868)	28.0
Profit attributable to shareholders	19,243	13,166	46.2	50,423	34,534	46.0
Note (i) – Other Credits						
Foreign exchange adjustment gain	-	-	-	69	-	N.M.
Gain on disposal of property, plant and equipment	3,957	100	3857.0	3,815	111	3336.9
Government Grant	26	-	N.M.	1,440	813	77.1
Write back of allowance for impairment on trade receivables	-	-	-	94	157	(40.1)
	3,983	100	3883.0	5,418	1,081	401.2
Note (ii) – Other Charges						
Provision for doubtful debts	(403)	-	N.M.	(403)	-	N.M.
Foreign exchange adjustment loss	(35)	(205)	(82.9)	-	(1,115)	N.M.
	(438)	(205)	113.7	(403)	(1,115)	(63.9)

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

Amortisation expenses	(455)	(424)	7.3	(1,367)	(1,272)	7.5
Depreciation expenses	(4,011)	(3,988)	0.6	(12,294)	(11,847)	3.8
Foreign exchange adjustment (loss) / gain	(35)	(205)	(82.9)	69	(1,115)	(106.2)
Gain on disposal of property, plant and equipment	3,957	100	3857.0	3,815	111	3336.9
Interest expense	(555)	(587)	(5.5)	(1,932)	(1,915)	0.9
Interest income from bank deposits	146	173	(15.6)	565	397	42.3
Allowance for impairment on trade receivables	(403)	-	N.M.	(403)	-	N.M.
Write back of allowance for impairment on trade receivables	-	-	-	94	157	(40.1)

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 Oct 2011 to 31 Dec 2011 RMB'000	3 months from 1 Oct 2010 to 31 Dec 2010 RMB'000	Increase/(Decrease) %	9 months from 1 Apr 2011 to 31 Dec 2011 RMB'000	9 months from 1 Apr 2010 to 31 Dec 2010 RMB'000	Increase/(Decrease) %
Profit attributable to shareholders	19,243	13,166	46.2	50,423	34,534	46.0
Foreign currency translation difference	(38)	70	(154.3)	(498)	795	(162.6)
Total comprehensive income for the period	<u>19,205</u>	<u>13,236</u>	45.1	<u>49,925</u>	<u>35,329</u>	41.3

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

	Group		Company	
	31 December 2011 RMB'000	31 March 2011 RMB'000	31 December 2011 RMB'000	31 March 2011 RMB'000
ASSETS				
Non-current assets :				
Property, plant and equipment	237,241	181,277	257	300
Intangible assets	5,894	6,541	-	-
Other assets, non-current	99,173	53,300	-	-
Deferred tax assets	3,757	4,110	-	-
Investment in subsidiary	-	-	110,348	117,175
Total non-current assets	346,065	245,228	110,605	117,475
Current assets :				
Inventories	50,133	46,534	-	-
Trade and other receivables (Note 1)	121,330	116,159	12,844	29,186
Other assets, current	47,802	30,302	67	73
Cash and cash equivalents	127,630	101,053	1,083	712
Total current assets	346,895	294,048	13,994	29,971
Total assets	692,960	539,276	124,599	147,446
EQUITY AND LIABILITIES				
Capital and reserves :				
Share capital	116,849	116,849	116,849	116,849
Retained earnings	271,145	231,074	4,494	20,451
Other reserves	42,580	38,911	(1,948)	5,377
Total equity	430,574	386,834	119,395	142,677
Non-Current liabilities :				
Deferred tax liabilities	6,571	5,380	-	-
Other financial liabilities	29	97	29	97
Total non-current liabilities	6,600	5,477	29	97
Current liabilities :				
Income tax payable	3,953	3,068	-	-
Trade and other payables (Note 2)	205,422	102,143	5,092	4,587
Other financial liabilities, current	43,727	39,515	83	85
Other liabilities	2,684	2,239	-	-
Total current liabilities	255,786	146,965	5,175	4,672
Total liabilities	262,386	152,442	5,204	4,769
Total liabilities and equity	692,960	539,276	124,599	147,446
Note 1				
Trade receivables	119,916	114,936	-	-
Dividend receivable from subsidiary	-	-	12,844	29,186
Other receivables	1,414	1,223	-	-
Total trade and other receivables	121,330	116,159	12,844	29,186
Note 2				
Trade payables and accruals	76,681	72,779	4,988	4,469
Other payables	128,741	29,364	104	118
Total trade and other payables	205,422	102,143	5,092	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)

31 December 2011		31 March 2011	
Secured	Unsecured	Secured	Unsecured
14,083	29,644	10,085	29,430

Amount repayable after one year

(RMB'000)

31 December 2011		31 March 2011	
Secured	Unsecured	Secured	Unsecured
29	-	97	-

Details of any collateral

As at 31 December 2011, the Group has secured borrowings comprising a 7-year finance lease of approximately RMB 112,000 for the purchase of a motor vehicle and aggregate secured short-term bank loans of RMB 14.0 million. Unsecured borrowings relate to a loan from a third party of RMB 9.6 million and an unsecured short-term bank loan of RMB 20.0 million.

The finance lease is secured against the motor vehicle with net book value of approximately RMB 238,000 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 17.3 million and guaranteed by a corporate guarantee from Shandong Yinguang Chemical Group Co., Ltd ("Yinguang Group"), the former holding company of Hebei Yinguang. The secured short-term bank loans' interest rate is 8.203% per annum.

Unsecured borrowing of RMB 29.6 million relates to a loan from Linxi County Nitrogenous Fertilizer Co., Ltd of RMB 9.6 million and an unsecured short-term bank loan of RMB 20.0 million. A portion of the unsecured loan from Linxi County Nitrogenous Fertilizer Co., Ltd has an interest rate of 12% per annum. The unsecured short-term bank loan of RMB 20.0 million is guaranteed by a corporate guarantee from Yinguang Group and has an interest rate of 7.872% per annum.

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

	Group		Group	
	3 months from 1 Oct 2011 to 31 Dec 2011 RMB'000	3 months from 1 Oct 2010 to 31 Dec 2010 RMB'000	9 months from 1 Apr 2011 to 31 Dec 2011 RMB'000	9 months from 1 Apr 2010 to 31 Dec 2010 RMB'000
Cash flows from operating activities				
Profit before income tax	26,579	19,358	70,730	50,402
Adjustments for :				
Amortisation expenses	455	424	1,367	1,272
Depreciation expense	4,011	3,988	12,294	11,847
Gain on disposal of property, plant and equipment	(3,957)	(100)	(3,815)	(111)
Interest expenses	555	587	1,932	1,915
Interest income	(146)	(173)	(565)	(397)
Allowance for impairment on trade receivables	403	-	403	-
Write back of allowance for impairment on trade receivables	-	-	(94)	(157)
Net effect of exchange rate changes in translation of financial statements of Parent	(36)	67	(482)	779
Operating profit before working capital changes	27,864	24,151	81,770	65,550
Inventories	(5,824)	(1,757)	(3,599)	(3,321)
Trade and other receivables	1,127	(7,816)	(5,480)	(3,650)
Other assets	(22,181)	(1,958)	(17,500)	5,142
Trade and other payables	(8,645)	16,786	2,581	(13,349)
Other liabilities	(71)	897	445	92
Cash (used in) / generated from operations	(7,730)	30,303	58,217	50,464
Income tax paid	(6,460)	(6,989)	(17,878)	(14,090)
Net cash (used in) / from operating activities	(14,190)	23,314	40,339	36,374
Cash flows from investing activities				
Proceeds from disposal of property, plant and equipment	6,068	533	6,502	633
Purchase of property, plant and equipment	(13,378)	(4,316)	(16,856)	(8,160)
Interest received	146	173	565	397
Net cash used in investing activities	(7,164)	(3,610)	(9,789)	(7,130)
Cash flows from financing activities				
Payment of dividends	-	-	(6,185)	(5,887)
Repayment of finance lease obligation	(21)	(20)	(70)	(47)
Increase in short-term bank loans	20,000	-	9,000	4,000
Increase / (Repayment) of third party loan	145	(2,577)	(4,786)	(9,514)
Interest paid	(555)	(587)	(1,932)	(1,915)
Net cash from / (used in) financing activities	19,569	(3,184)	(3,973)	(13,363)
Net (decrease) / increase in cash	(1,785)	16,520	26,577	15,881
Cash at beginning of the period	129,415	106,616	101,053	107,255
Cash at end of the period	127,630	123,136	127,630	123,136

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 2011	116,849	37,567	1,344	231,074	386,834
Appropriation for the period	-	2,886	-	(2,886)	-
Dividend paid	-	-	-	(6,185)	(6,185)
Total comprehensive income for the period	-	-	(460)	31,180	30,720
Balance at 30 September 2011	116,849	40,453	884	253,183	411,369
Appropriation for the period	-	1,281	-	(1,281)	-
Total comprehensive (loss)/income for the period	-	-	(38)	19,243	19,205
Balance at 31 December 2011	116,849	41,734	846	271,145	430,574
Balance at 1 April 2010	116,849	33,360	451	205,844	356,504
Appropriation for the period	-	2,541	-	(2,541)	-
Dividend paid	-	-	-	(5,887)	(5,887)
Total comprehensive (loss)/income for the period	-	-	725	21,368	22,093
Balance at 30 September 2010	116,849	35,901	1,176	218,784	372,710
Appropriation for the period	-	1,405	-	(1,405)	-
Total comprehensive income for the period	-	-	70	13,166	13,236
Balance at 31 December 2010	116,849	37,306	1,246	230,545	385,946

	Share capital	Foreign exchange translation reserve	Retained earnings/ (Accumulated losses)	Total
Company (RMB'000)				
Balance at 1 April 2011	116,849	5,377	20,451	142,677
Dividend paid	-	-	(6,185)	(6,185)
Total comprehensive income/(loss) for the period	-	(6,371)	(6,595)	(12,966)
Balance at 30 September 2011	116,849	(994)	7,671	123,526
Total comprehensive loss for the period	-	(954)	(3,177)	(4,131)
Balance at 31 December 2011	116,849	(1,948)	4,494	119,395
Balance at 1 April 2010	116,849	(2,506)	18,139	132,482
Dividend paid	-	-	(5,887)	(5,887)
Total comprehensive loss for the period	-	5,272	(6,163)	(891)
Balance at 30 September 2010	116,849	2,766	6,089	125,704
Total comprehensive income/(loss) for the period	-	822	(3,363)	(2,541)
Balance at 31 December 2010	116,849	3,588	2,726	123,163

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	
	31 December 2011	31 March 2011
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 31 Dec 2011	3 months ended 31 Dec 2010	9 months ended 31 Dec 2011	9 months ended 31 Dec 2010
	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	8.22	5.63	21.55	14.76
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	
	31 Dec 2011	31 March 2011	31 Dec 2011	31 March 2011
	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	184.01	165.31	51.02	60.97
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 31 December 2011 ("3Q2012") increased by approximately RMB 12.3 million or 9.6%, from RMB 127.8 million of the 3-month period ended 31 December 2010 ("3Q2011") to RMB 140.1 million in 3Q2012. The increase in revenue during 3Q2012 was mainly attributed to higher PRC sales of ammonium nitrate and sales of boosters to Australia, partially offset by lower sales from 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 3Q2012 and 3Q2011 and between 9-month period ended 31 December 2011 ("9M2012") and the 9-month period ended 31 December 2010 ("9M2011") are as follows:

	3Q2012		3Q2011		% change
	RMB'000	%	RMB'000	%	
Explosives devices	37,112	26.5	35,774	28.0	3.7
Industrial fuse and initiating explosive devices	23,379	16.7	28,612	22.4	(18.3)
Industrial detonators	23,841	17.0	21,588	16.9	10.4
Ammonium Nitrate	55,611	39.7	41,698	32.6	33.4
Others ⁽¹⁾	206	0.1	172	0.1	19.8
	140,149	100.0	127,844	100.0	9.6
Within PRC	114,990	82.1	104,790	82.0	9.7
Outside PRC					
Sales through export distributors ⁽²⁾	3,779	2.7	4,284	3.4	(11.8)
Australia	19,930	14.2	14,878	11.6	34.0
Others	1,450	1.0	3,892	3.0	(62.7)
	25,159	17.9	23,054	18.0	9.1
	140,149	100.0	127,844	100.0	9.6

	9M2012		9M2011		% change
	RMB'000	%	RMB'000	%	
Explosives devices	98,614	24.1	73,222	22.7	34.7
Industrial fuse and initiating explosive devices	81,298	19.8	85,050	26.4	(4.4)
Industrial detonators	71,016	17.3	59,747	18.6	18.9
Ammonium Nitrate	158,415	38.7	103,686	32.2	52.8
Others ⁽¹⁾	457	0.1	331	0.1	38.1
	409,800	100.0	322,036	100.0	27.3
Within PRC	336,089	82.0	274,409	85.2	22.5
Outside PRC					
Sales through export distributors ⁽²⁾	11,393	2.8	7,899	2.5	44.2
Australia	47,590	11.6	30,310	9.4	57.0
Others	14,728	3.6	9,418	2.9	56.4
	73,711	18.0	47,627	14.8	54.8
	409,800	100.0	322,036	100.0	27.3

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 3Q2012, sales within PRC increased by approximately RMB 10.2 million or 9.7% as compared to 3Q2011. The increase was mainly due to the higher domestic sales of ammonium nitrate of approximately RMB 13.9 million.

For the 9M2012, sales within PRC increased by approximately RMB 61.7 million or 22.5% from RMB 274.4 million in 9M2011 to RMB 336.1 million in 9M2012 mainly due to increased sales of ammonium nitrate by approximately RMB 54.7 million or 52.8% from RMB 103.7 million in 9M2011 to RMB 158.4 million in 9M2012.

b) **Sales to Australia**

During 3Q2012, sales to Australia increased by approximately RMB 5.1 million or 34.0% mainly due to higher sales to our Australia customers. Particularly, sales to Dyno Nobel in Australia increased by approximately RMB 3.1 million or 241.5% to RMB 4.3 million in 3Q2012 from RMB 1.2 million during 3Q2011.

During 9M2012, sales to Australia increased by approximately RMB 17.3 million or 57.0% mainly due to increased in sales to Dyno Nobel in Australia of approximately RMB 14.7 million, from RMB 2.0 million during 9M2011 to RMB 16.7 million during 9M2012.

c) **Sales through export distributors**

Sales through export distributors increased by approximately RMB 3.5 million or 44.2% during 9M2012 despite a decrease in sales of approximately RMB 0.5 million during 3Q2012.

The fluctuations in sales revenue were mainly due to the different shipping schedules determined by our customers.

d) **Sales to other countries**

Sales to other countries increased by approximately RMB 5.3 million or 56.4% during 9M2012 despite a decrease in sales of approximately RMB 2.4 million during 3Q2012.

The fluctuations in sales revenue were mainly due to the different shipping schedules determined by our 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 3Q2012 and 9M2012, the Group's gross profit margin improved marginally by approximately 1.0%, from 30.8% in 3Q2011 to 31.8% in 3Q2012 and 0.3% from 31.2% in 9M2011 to 31.5% in 9M2012. Despite higher raw materials prices and the higher proportion of lower-margin products (ammonium nitrate) in our product sales-mix, the Group's production efficiency improved during 9M2012. In addition, the Group also ceased to pay rental expenses pertaining to the acquired manufacturing facilities and warehouses with effect from 30 June 2011. This has contributed positively to our gross profit margins across most of our product segments. The gross profit margin for ammonium nitrate increased from approximately 16.2% during 9M2011 to approximately 21.5% during 9M2012 as a result of higher average selling prices of ammonium nitrate due to market-driven forces.

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)**

Interest income / (Finance costs)

For 3Q2012, interest income decreased by approximately RMB 27,000 mainly due to lower average bank deposits during 3Q2012. For 9M2012, interest income increased by approximately RMB 168,000 mainly due to higher bank deposits during 9M2012.

For 3Q2012, finance costs decreased marginally by RMB 32,000 or 5.5% to RMB 555,000 as compared to RMB 587,000 for 3Q2011. For 9M2012, finance costs increased marginally by RMB 17,000 or 0.9% to RMB 1.932 million as compared to RMB 1.915 million for 9M2011.

Other credits / (Other charges)

For 3Q2012, other credits relate to gain on disposal of property, plant and equipment of approximately RMB 4.0 million and a government grant of RMB 26,000. For 9M2012, other credits relate to foreign exchange adjustment gain of RMB 69,000, gain on disposal of property, plant and equipment of approximately RMB 3.8 million, government grants of RMB 1.4 million mainly by Hebei Province, Linxi County's government for our subsidiary, Hebei Yinguang and write-back of allowance for impairment on trade receivables of RMB 94,000.

Other charges relate to provision for doubtful debts and foreign exchange adjustment loss.

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

Operating expenses

In line with the increase in sales revenue, distribution costs increased by approximately RMB 1.4 million or 18.0% to RMB 9.1 million in 3Q2012 from RMB 7.7 million in 3Q2011. The Group also incurred additional sales tax of approximately RMB 0.8 million in 3Q2012 as compared to RMB 0.2 million in 3Q2011. The additional sales tax came into effect in December 2010.

Administrative expenses rose by approximately RMB 0.3 million or 2.6% to RMB 12.1 million in 3Q2012 from RMB 11.8 million in 3Q2011. The increase in administrative expenses was mainly due to the increase in provision for safety expenses and executive directors' profit sharing, which correlate directly with the increase in sales revenue and profit before taxation during 3Q2012.

For 9M2012, distribution costs increased by approximately RMB 7.9 million or 43.5% from 9M2011's RMB 18.2 million to 9M2012's RMB 26.1 million and administrative expenses increased by approximately RMB 5.5 million or 18.0% from 9M2011's RMB 30.4 million to 9M2012's RMB 35.9 million. The increase in operating expenses was mainly due to the reasons highlighted in the preceding paragraphs.

Income tax expenses

The effective tax rate for 3Q2012 and 9M2012 was 27.6% and 28.7% respectively (3Q2011: 32.0% ; 9M2011: 31.5%). This is higher than the PRC concessionary tax rate of 25.0% mainly due to the non-deductible expenses and 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 56.0 million, mainly due to the acquisition of land and buildings subsequent to the shareholders' approval obtained during the Extraordinary General Meeting ("EGM") held on 28 July 2011. Our subsidiary, Shandong Yinguang Technology Co., Ltd. ("Yinguang Technology") has since obtained most of the legal property rights to the relevant buildings.

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 0.6 million mainly due to the amortisation charges during the financial period under review.

Other assets, non-current relate to the Group's land use rights, which increased by approximately RMB 45.9 million mainly due to the acquisition of land and buildings subsequent to the shareholders' approval obtained during the EGM held on 28 July 2011. Yinguang Technology is currently undertaking the transfer of the relevant legal land use rights.

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

Inventories, trade and other receivables, other assets and cash and cash equivalents, represented approximately 14.4%, 35.0%, 13.8% and 36.8% respectively of our total current assets as at 31 December 2011.

Inventories increased marginally by approximately RMB 3.6 million or 7.7% to RMB 50.1 million as at 31 December 2011, as compared to 31 March 2011's RMB 46.5 million. The increment was mainly due to the increase in raw materials purchased during the financial period under review.

Trade and other receivables increased by approximately RMB 5.2 million or 4.5%, mainly due to the increase in sales revenue during the financial period under review.

Other assets, current comprising the Group's prepayments, increased by approximately RMB 17.5 million or 57.8% to RMB 47.8 million as at 31 December 2011. The increase was mainly due to prepayment for the bulk purchase of raw materials during the current quarter under review.

As at 31 December 2011, our current liabilities comprised of income tax payable of RMB 4.0 million, trade and other payables of approximately RMB 205.4 million, other current financial liabilities of approximately RMB 43.7 million and other liabilities of RMB 2.7 million. Non-current liabilities comprised of deferred tax liabilities of RMB 6.6 million and non-current portion of the finance lease obligation of RMB 29,000.

Trade and other payables increased by approximately RMB 103.3 million mainly due to the increase in other payables for the acquisition of the land and buildings subsequent to the shareholders' approval obtained during the EGM held on 28 July 2011. Total acquisition costs was RMB 108.7 million and RMB 8.0 million was paid as of 31 December 2011.

As at 31 December 2011, other current financial liabilities comprised of bank loans of RMB 34.0 million, third party loan of RMB 9.6 million and current portion of finance lease obligation of approximately RMB 83,000. During the 9 months ended 31 December 2011, the Group obtained a net additional RMB 9.0 million of bank loans for working capital purposes.

Other liabilities of RMB 2.7 million relate to the Group's advances from customers.

Deferred tax liabilities of RMB 6.6 million relate mainly to the deferred tax difference upon the finalisation of the PPA exercise in relation to the acquisition of Hebei Yinguang in 2008.

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)

The current and non-current portions of the finance lease obligation of RMB 83,000 and RMB 29,000 respectively relate to a 7-year finance lease secured against a motor vehicle with net book value of approximately RMB 238,000 as at 31 December 2011, which bears effective interest rate of 6.61% per annum.

Cash flow

For the 3 months ended 31 December 2011, the Group recorded net cash used in operating activities of approximately RMB 14.2 million, net cash used in investing of approximately RMB 7.2 million and net cash from financing activities of approximately RMB 19.6 million.

For the current 9 months ended 31 December 2011, the Group recorded net cash generated from operating activities of approximately RMB 40.3 million, net cash used in investing and financing activities of approximately RMB 9.8 million and RMB 4.0 million respectively.

The net cash used in operating activities during 3Q2012 of approximately RMB 14.2 million was mainly due to the prepayment for bulk purchase of raw materials during 3Q2012.

The cash outflow in investing activities was due to the partial payment for the purchase of land and buildings subsequent to the shareholders' approval obtained during the EGM held on 28 July 2011 of RMB 8.0 million and the purchase of miscellaneous plant and equipments, partially offset by the proceeds from the disposal of property, plant and equipments.

The net cash inflow from financing activities of approximately RMB 19.6 million during 3Q2012 was mainly due to the increase in short-term bank loan of RMB 20.0 million for working capital purposes. The net cash outflow during 9M2011 was mainly due to the payment of dividend of approximately RMB 6.2 million in August 2011 and the repayment of third party loan of approximately RMB 4.8 million, partially offset by the increase in bank loan of RMB 9 million.

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 production of the Group's initiation systems products) are located.

The Group has been leasing the Property since 16 November 2004 and the latest rental expense amounts to RMB 8 million per annum. The rental lease 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. This had reduced our operating costs since 1 July 2011. The savings in rental will be partially off-set by the associated depreciation and amortisation charges with effect from 1 January 2012, i.e. 4Q2012 onwards and the interest payable on the RMB 70.0 million bank loans which have to be repaid to the Vendor.

In accordance with the agreement for the acquisition of the Property, the Group has since paid RMB 8.0 million to the Vendor upon signing the Agreement. With shareholders' approval secured at the EGM on 28 July 2011, the Group is due to pay RMB 9.0 million to the Vendor. Till date, only RMB 7.0 million was paid out of the RMB 9.0 million. The Group is currently liaising with the Vendor to repay the remaining RMB 2.0 million. Since then, the Group has obtained most of the legal rights on the property titles from the Vendor and the remaining titles (properties and land use rights) are currently in the process of being transferred to the Group.

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

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. Interested Person Transaction

		Aggregate value of all interested person transactions during the financial period under review (excluding transactions less than \$100,000 and transactions conducted under shareholders' mandate pursuant to Rule 920)		Aggregate value of all interested person transactions conducted under shareholders' mandate pursuant to Rule 920 (excluding transactions less than \$100,000)	
		3Q2012	3Q2011	3Q2012	3Q2011
Name of interested person	Nature	RMB'000	RMB'000	RMB'000	RMB'000
Shandong Yinguang Chemical Industry Co., Ltd	Rental of manufacturing facilities, offices and warehouses	-	2,000	-	-
Feixian Yinguang Transport Co., Ltd	Payment of transportation charges	1,270	938	-	-
Shandong Yinguang Commercial Explosives Sales and Services Co., Ltd	Sales of commercial explosives products	537	375	-	-
Shandong Yinguang Chemical Group Co., Ltd ⁽¹⁾	Sales of ammonium nitrate	-	-	1,731	1,121
Dyno Nobel ⁽²⁾	Sales of commercial explosives	1,385	1,264	2,931	-
		9M2012	9M2011	9M2012	9M2011
Name of interested person	Nature	RMB'000	RMB'000	RMB'000	RMB'000
Shandong Yinguang Chemical Industry Co., Ltd	Rental of manufacturing facilities, offices and warehouses	2,000	6,000	-	-
Feixian Yinguang Transport Co., Ltd	Payment of transportation charges	3,269	2,240	-	-
Shandong Yinguang Commercial Explosives Sales and Services Co., Ltd	Sales of commercial explosives products	1,546	1,014	-	-
Shandong Yinguang Chemical Group Co., Ltd ⁽¹⁾	Sales of ammonium nitrate	-	-	3,585	6,813
Dyno Nobel ⁽²⁾	Sales of commercial explosives	14,698	2,015	2,931	-

Footnote:

⁽¹⁾ The relevant general mandate was updated and approved at the Annual General Meeting held on 28 July 2011.

⁽²⁾ The relevant general mandate was approved at the Extraordinary General Meeting held on 10 November 2011.

14. Negative assurance confirmation pursuant to Rule 705(5) 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 3rd 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
13 FEBRUARY 2012**