



Fabchem China Limited

Company registration number: 200413128G

Financial Statements for the Second Quarter ended 30 September 2012 (“2Q2013”)

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 Jul 2012 to 30 Sept 2012 RMB'000	3 months from 1 Jul 2011 to 30 Sept 2011 RMB'000	Increase/(Decrease) %	6 months from 1 Apr 2012 to 30 Sept 2012 RMB'000	6 months from 1 Apr 2011 to 30 Sept 2011 RMB'000	Increase/(Decrease) %
Revenue	148,551	131,871	12.6	292,733	269,651	8.6
Cost of sales	(104,476)	(89,508)	16.7	(205,513)	(185,216)	11.0
Gross profit	44,075	42,363	4.0	87,220	84,435	3.3
<u>Other Items of Income</u>						
Interest income	189	181	4.4	379	419	(9.5)
Other credits – Note (i)	5	545	(99.1)	1,365	1,612	(15.3)
<u>Other Items of Expense</u>						
Distribution costs	(8,000)	(8,163)	(2.0)	(17,004)	(17,031)	(0.2)
Administrative expenses	(11,464)	(11,486)	(0.2)	(23,057)	(23,765)	(3.0)
Financial costs	(702)	(717)	(2.1)	(1,512)	(1,377)	9.8
Other charges– Note (ii)	(1,143)	(145)	688.3	(701)	(142)	393.7
Profit before income tax	22,960	22,578	1.7	46,690	44,151	5.8
Income tax expense	(11,571)	(6,652)	73.9	(18,486)	(12,971)	42.5
Profit attributable to shareholders	11,389	15,926	(28.5)	28,204	31,180	(9.5)
Note (i) – Other Credits						
Foreign exchange adjustment gain	-	451	N.M.	-	104	N.M.
Government Grant	-	-	N.M.	1,360	1,414	(3.8)
Write back of allowance for impairment on trade receivables	5	94	(94.7)	5	94	(94.7)
	5	545	(99.1)	1,365	1,612	(15.3)
Note (ii) – Other Charges						
Loss on sale of property, plant and equipments	(22)	(145)	(84.8)	(12)	(142)	(91.5)
Foreign exchange adjustment loss	(1,121)	-	N.M.	(689)	-	N.M.
	(1,143)	(145)	688.3	(701)	(142)	393.7

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

Amortisation expenses	(1,230)	(456)	169.7	(1,803)	(912)	97.7
Depreciation expenses	(4,831)	(4,192)	15.2	(10,208)	(8,283)	23.2
Foreign exchange adjustment (loss) / gain	(1,121)	451	(348.6)	(689)	104	(762.5)
Loss on sale of property, plant and equipment	(22)	(145)	(84.8)	(12)	(142)	(91.5)
Interest expense	(702)	(717)	(2.1)	(1,512)	(1,377)	9.8
Interest income from bank deposits	189	181	4.4	379	419	(9.5)
Write back of allowance for impairment on trade receivables	5	94	(94.7)	5	94	(94.7)

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 2012 to 30 Sept 2012 RMB'000	3 months from 1 Jul 2011 to 30 Sept 2011 RMB'000	Increase/(Decrease) %	6 months from 1 Apr 2012 to 30 Sept 2012 RMB'000	6 months from 1 Apr 2011 to 30 Sept 2011 RMB'000	Increase/(Decrease) %
Profit attributable to shareholders	11,389	15,926	(28.5)	28,204	31,180	(9.5)
Foreign currency translation difference	985	(642)	(253.4)	593	(460)	(228.9)
Total comprehensive income for the period	<u>12,374</u>	<u>15,284</u>	(19.0)	<u>28,797</u>	<u>30,720</u>	(6.3)

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	
	30 September 2012 RMB'000	31 March 2012 RMB'000	30 September 2012 RMB'000	31 March 2012 RMB'000
ASSETS				
Non-current assets :				
Property, plant and equipment	239,439	234,404	230	248
Intangible assets	5,247	5,678	-	-
Other assets, non-current	96,772	97,754	-	-
Deferred tax assets	4,238	4,495	-	-
Investment in subsidiary	-	-	116,184	113,298
Total non-current assets	345,696	342,331	116,414	113,546
Current assets :				
Inventories	60,476	62,404	-	-
Trade and other receivables (Note 1)	154,276	124,268	21,250	41,828
Other assets , current	46,566	43,965	135	68
Cash and cash equivalents	83,321	103,143	621	217
Total current assets	344,639	333,780	22,006	42,113
Total assets	690,335	676,111	138,420	155,659
EQUITY AND LIABILITIES				
Capital and reserves :				
Share capital	116,849	116,849	116,849	116,849
Retained earnings	292,533	279,925	12,546	31,635
Other reserves	47,990	43,632	4,720	1,241
Total equity	457,372	440,406	134,115	149,725
Non-Current liabilities :				
Deferred tax liabilities	5,536	5,306	-	-
Other financial liabilities	-	7	-	7
Total non-current liabilities	5,536	5,313	-	7
Current liabilities :				
Income tax payable	3,433	981	-	-
Trade and other payables (Note 2)	183,207	183,078	4,252	5,840
Other financial liabilities, current	38,412	43,674	53	87
Other liabilities	2,375	2,659	-	-
Total current liabilities	227,427	230,392	4,305	5,927
Total liabilities	232,963	235,705	4,305	5,934
Total liabilities and equity	690,335	676,111	138,420	155,659
Note 1				
Trade receivables	149,193	119,508	-	-
Amount receivable from subsidiary	-	-	21,250	41,828
Tax recoverable	2,249	2,911	-	-
Other receivables	2,834	1,849	-	-
Trade and other receivables	154,276	124,268	21,250	41,828
Note 2				
Trade payables and accruals	84,519	67,605	3,807	5,692
Other payables	98,688	115,473	445	148
Trade and other payables	183,207	183,078	4,252	5,840

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 2012		31 March 2012	
Secured	Unsecured	Secured	Unsecured
10,053	28,359	14,087	29,587

Amount repayable after one year

(RMB'000)

30 September 2012		31 March 2012	
Secured	Unsecured	Secured	Unsecured
-	-	7	-

Details of any collateral

As at 30 September 2012, the Group has secured borrowings comprising a 7-year finance lease of approximately RMB 53,000 for the purchase of a motor vehicle and a secured short-term bank loan of RMB 10 million. Unsecured borrowings relate to a loan from a third party of RMB 8.4 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 206,000, 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 16.7 million and a corporate guarantee from Shandong Yinguang Chemical Group Co., Ltd, the former holding company of Hebei Yinguang. The secured short-term bank loans' interest rate is 8.203% per annum.

Unsecured borrowing of RMB 28.4 million relates to a loan from Linxi County Nitrogenous Fertilizer Co., Ltd of RMB 8.4 million and a short-term bank loan of RMB 20.0 million. Unsecured short-term bank loan of RMB 20 million is guaranteed by a corporate guarantee of Yinguang Chemical 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 Jul 2012 to 30 Sept 2012 RMB'000	3 months from 1 Jul 2011 to 30 Sept 2011 RMB'000	6 months from 1 Apr 2012 to 30 Sept 2012 RMB'000	6 months from 1 Apr 2011 to 30 Sept 2011 RMB'000
Cash flows from operating activities				
Profit before income tax	22,960	22,578	46,690	44,151
Adjustments for :				
Amortisation expenses	1,230	456	1,803	912
Depreciation expense	4,831	4,192	10,208	8,283
Loss on sale of property, plant and equipments	22	145	12	142
Interest income	(189)	(181)	(379)	(419)
Interest expenses	702	717	1,512	1,377
Write back of allowance for impairment on trade receivables	(5)	(94)	(5)	(94)
Net effect of exchange rate changes in translation of financial statements of Parent	976	(625)	587	(446)
Operating profit before working capital changes	30,527	27,188	60,428	53,906
Inventories	1,502	(4,954)	1,928	2,225
Trade and other receivables	(7,012)	7,303	(30,665)	(6,607)
Other assets	1,434	212	(2,601)	4,681
Trade and other payables	(2,349)	15,901	19,382	11,226
Other liabilities	(13)	729	(284)	516
Cash generated from operations	24,089	46,379	48,188	65,947
Income tax paid	(10,278)	(6,072)	(14,885)	(11,418)
Net cash from operating activities	13,811	40,307	33,303	54,529
Cash flows from investing activities				
Proceeds from sale of property, plant and equipment	11	349	28	434
Purchase of property, plant and equipment	(30,892)	(2,930)	(34,530)	(3,478)
Purchase of land use rights	-	-	(390)	-
Interest received	189	181	379	419
Net cash used in investing activities	(30,692)	(2,400)	(34,513)	(2,625)
Cash flows from financing activities				
Payment of dividends	(11,831)	(6,185)	(11,831)	(6,185)
Repayment of finance lease obligation	(19)	(30)	(41)	(49)
Repayment of short-term bank loans	(4,000)	(11,000)	(4,000)	(11,000)
Repayment of third party loan	-	(881)	(1,228)	(4,931)
Interest paid	(702)	(717)	(1,512)	(1,377)
Net cash used in financing activities	(16,552)	(18,813)	(18,612)	(23,542)
Net (decrease)/increase in cash	(33,433)	19,094	(19,822)	28,362
Cash at beginning of the period	116,754	110,321	103,143	101,053
Cash at end of the period	83,321	129,415	83,321	129,415

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 2012	116,849	42,546	1,086	279,925	440,406
Appropriation for the period	-	1,798	-	(1,798)	-
Total comprehensive income for the period	-	-	(392)	16,815	16,423
Balance at 30 June 2012	116,849	44,344	694	294,942	456,829
Appropriation for the period	-	1,967	-	(1,967)	-
Dividend paid	-	-	-	(11,831)	(11,831)
Total comprehensive income for the period	-	-	985	11,389	12,374
Balance at 30 September 2012	116,849	46,311	1,679	292,533	457,372
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	116,849	38,898	1,526	244,997	402,270
Appropriation for the period	-	1,555	-	(1,555)	-
Dividend paid	-	-	-	(6,185)	(6,185)
Total comprehensive (loss)/income for the period	-	-	(642)	15,926	15,284
Balance at 30 September 2011	116,849	40,453	884	253,183	411,369
Company (RMB'000)					
	Share capital		Foreign exchange translation reserve	Retained earnings	Total
Balance at 1 April 2012	116,849		1,241	31,635	149,725
Total comprehensive income/(loss) for the period	-		(1,760)	(2,688)	(4,448)
Balance at 30 June 2012	116,849		(519)	28,947	145,277
Dividend paid	-		-	(11,831)	(11,831)
Total comprehensive loss for the period	-		5,239	(4,570)	669
Balance at 30 September 2012	116,849		4,720	12,546	134,115
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	116,849		6,264	16,844	139,957
Dividend paid	-		-	(6,185)	(6,185)
Total comprehensive loss for the period	-		(7,258)	(2,988)	(10,246)
Balance at 30 September 2011	116,849		(994)	7,671	123,526

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 2012	31 March 2012
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 2012	3 months ended 30 Sept 2011	6 months ended 30 Sept 2012	6 months ended 30 Sept 2011
	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	4.87	6.81	12.05	13.32
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 2012	31 March 2012	30 Sept 2012	31 March 2012
	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	195.46	188.21	57.31	63.99
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 2012 ("2Q2013") increased by approximately RMB 16.7 million or 12.6%, from RMB 131.9 million of the 3-month period ended 30 September 2011 ("2Q2012") to RMB 148.6 million in 2Q2013. The increase in revenue during 2Q2013 was mainly attributed to higher sales across all product segments, except for the ammonium nitrate product segment. Notably, sales of boosters to Australia registered significant growth due to increased sales to Orica Australia and Dyno Nobel Australia.

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 2Q2013 and 2Q2012 and between 6-month period ended 30 September 2012 ("6M2013") and the 6-month period ended 30 September 2011 ("6M2012") are as follows:

	2Q2013		2Q2012		% change
	RMB'000	%	RMB'000	%	
Explosives devices	55,553	37.4	29,474	22.3	88.5
Industrial fuse and initiating explosive devices	32,578	21.9	28,069	21.3	16.1
Industrial detonators	23,974	16.1	22,261	16.9	7.7
Ammonium Nitrate	36,238	24.4	51,977	39.4	(30.3)
Others ⁽¹⁾	208	0.2	90	0.1	131.1
	148,551	100.0	131,871	100.0	12.6
Within PRC	104,332	70.2	110,256	83.6	(5.4)
<u>Outside PRC</u>					
Sales through export distributors ⁽²⁾	6,407	4.3	4,136	3.1	54.9
Australia	32,197	21.7	7,991	6.1	302.9
Others	5,615	3.8	9,488	7.1	(40.8)
	44,219	29.8	21,615	16.4	104.6
	148,551	100.0	131,871	100.0	12.6

	6M2013		6M2012		% change
	RMB'000	%	RMB'000	%	
Explosives devices	93,595	32.0	61,502	22.8	52.2
Industrial fuse and initiating explosive devices	65,416	22.3	57,919	21.5	12.9
Industrial detonators	50,141	17.1	47,175	17.5	6.3
Ammonium Nitrate	82,767	28.3	102,804	38.1	(19.5)
Others ⁽¹⁾	814	0.3	251	0.1	224.3
	292,733	100.0	269,651	100.0	8.6
Within PRC	218,119	74.5	221,099	82.0	(1.3)
<u>Outside PRC</u>					
Sales through export distributors ⁽²⁾	16,206	5.5	7,614	2.8	112.8
Australia	47,083	16.1	27,660	10.3	70.2
Others	11,325	3.9	13,278	4.9	(14.7)
	74,614	25.5	48,552	18.0	53.7
	292,733	100.0	269,651	100.0	8.6

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 2Q2013, sales within PRC decreased marginally by approximately RMB 5.9 million or 5.4% as compared to 2Q2012. The decrease was mainly due to the lower sales of ammonium nitrate in the PRC by approximately RMB 15.7 million or 30.3%, partially offset by the increase in sales across all other product segments.

For 6M2013, sales within PRC decreased marginally by approximately RMB 3.0 million or 1.3% from RMB 221.1 million in 6M2012 to RMB 218.1 million in 6M2013. The marginal decrease in sales within PRC was mainly attributed to the decreased sales of ammonium nitrate of approximately RMB 20.0 million or 19.5% from RMB 102.8 million in 6M2012 to RMB 82.8 million in 6M2013.

While the quantity of ammonium nitrate sold remained relatively stable for 6M2013 as compared to 6M2012, the decrease in sales of ammonium nitrate is mainly due to the lower market-driven selling prices of ammonium nitrate during the current period under review. Market-driven selling prices of ammonium nitrate decreased by approximately 18.7% during 6M2013 as compared to 6M2012.

b) **Sales through export distributors**

Sales through export distributors increased by RMB 2.3 million or 54.9% and RMB 19.4 million or 112.8% during 2Q2013 and 6M2013, respectively. The increased in mainly due to increased sales to South Africa through an export distributor.

c) **Sales to Australia**

During 2Q2013, sales to Australia increased by approximately RMB 24.2 million or 302.9% mainly due to higher sales to Orica Australia and Dyno Nobel Australia. Sales to Orica Australia and Dyno Nobel Australia increased by approximately RMB 11.6 million and RMB 7.4 million, respectively during 2Q2013.

During 6M2013, sales to Australia increased by approximately RMB 19.4 million or 70.2% mainly due to increased in sales to Orica Australia of approximately RMB 12.8 million and Beston Australia of approximately RMB 4.8 million. Sales to Dyno Nobel Australia also increased by approximately RMB 1.8 million during 6M2013.

d) **Sales to other countries**

During 2Q2013 and 6M2013, sales to other countries decreased by approximately RMB 3.9 million and RMB 2.0 million respectively. The decrease in sales to other countries is mainly due to decreased sales to Kyrgyzstan during the period under review.

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").

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

Gross profit margin

During 2Q2013, the Group's gross profit margin dipped marginally by approximately 2.4%, from 32.1% in 2Q2012 to 29.7% in 2Q2013. For 6M2013, the Group's gross profit margin dipped marginally by approximately 1.5% from 31.3% in 6M2012 to 29.8% in 6M2013.

The marginal decline in gross profit margin was mainly attributed to lower market-driven selling price of ammonium nitrate during the current period under review. Market-driven selling prices of ammonium nitrate decreased by approximately 18.7% during 6M2013 as compared to 6M2012. In addition, higher raw materials prices of other product segments also affected the Group's overall gross profit margins.

Interest income / (Finance costs)

For 2Q2013, interest income increased slightly by approximately RMB 8,000. For 6M2012, interest income decreased by approximately RMB 40,000 mainly due to the lower average bank deposits during the current period under review.

For 2Q2013, finance costs decreased slightly by approximately RMB 15,000. For 6M2012, finance costs increased by approximately RMB 135,000 mainly due to higher bank borrowings during the current period under review.

Other credits / (Other charges)

For 2Q2013, other credits relate only to a write back of allowance for impairment on trade receivables of RMB 5,000. For 2Q2012, other credits relate to a foreign exchange adjustment gain of RMB 451,000 and a write back of allowance for impairment on trade receivables of RMB 94,000.

For 6M2013, other credits include a government grant of approximately RMB 1.4 million by Hebei Province, Linxi County's government for our subsidiary, Hebei Yinguang and a write-back of allowance for impairment on trade receivables of RMB 5,000. For 6M2012, other credits include a foreign exchange adjustment gain of RMB 104,000, a government grant of approximately RMB 1.4 million and a write-back of allowance for impairment of trade receivables of RMB 94,000.

Other charges for 2Q2013 and 6M2013 relate to the loss on sales of property, plant and equipments and foreign exchange adjustment loss. Other charges for 2Q2012 and 6M2012 relate only to loss on sales of property, plant and equipments.

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

Distribution costs decreased marginally by 2.0% and 0.2% for 2Q2013 and 6M2013, respectively even though revenue increased during the current period under review.

Administrative expenses decreased marginally by 0.2% and 3.0% for 2Q2013 and 6M2013, respectively.

Income tax expenses

The effective tax rate for 2Q2013 and 6M2013 was 50.4% and 39.6% (2Q2012: 29.5% ; 6M2012: 29.4%). This is higher than the PRC concessionary tax rate of 25.0% mainly due to non-deductible expenses and an under-provision of tax for prior years of approximately RMB 4.7 million recognised and paid during 2Q2013.

Eliminating the effect of the under-provision of tax for prior years of RMB 4.7 million, the effective tax rate for 2Q2013 and 6M2013 will be approximately 30.0% and 29.5%, respectively.

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 5.0 million, mainly due to the acquisition of property, plant and equipment for the detonating cords and boosters expansion/upgrading plans, partially offset by the depreciation charged for the current period under review.

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 period under review.

Other assets, non-current relate to the Group's land use rights, which decreased by approximately RMB 0.1 million mainly due to the amortisation charges during the current period under review.

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

Inventories, trade and other receivables, other assets and cash and cash equivalents, represented approximately 17.5%, 44.8%, 13.5% and 24.2% respectively of our total current assets as at 30 September 2012.

Inventories decreased by approximately RMB 1.9 million or 3.1% to RMB 60.5 million as at 30 September 2012, as compared to RMB 62.4 million as at 31 March 2012. The decrease was mainly due to the decreased in finished goods.

Trade and other receivables increased by approximately RMB 30.0 million or 24.1%, 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 2.6 million or 5.9% to RMB 46.6 million as at 30 September 2012.

As at 30 September 2012, our current liabilities comprised of income tax payable of RMB 3.4 million, trade and other payables of approximately RMB 183.2 million, other current financial liabilities of approximately RMB 38.4 million and other liabilities of RMB 2.4 million. Non-current liabilities comprised of deferred tax liabilities of RMB 5.5 million.

Trade payables and accruals increased by approximately RMB 16.9 million mainly due to the increase in business operations. Other payables decreased by approximately RMB 16.8 million mainly due to the payment of RMB 19.3 million to a related party for the acquisition of land and buildings.

As at 30 September 2012, other current financial liabilities of RMB 38.4 million comprised of bank loans of RMB 30.0 million, third party loan of RMB 8.4 million and current portion of finance lease obligation of approximately RMB 53,000. The decreased of RMB 5.3 million from RMB 43.7 million as at 31 March 2012 was mainly due to the repayment of bank loans amounting to RMB 4.0 million and the repayment to third party loan of RMB 1.2 million.

Other liabilities of RMB 2.4 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 in relation to the acquisition of Hebei Yinguang in 2008.

The current portion of the finance lease obligation of RMB 53,000 relates to a 7-year finance lease secured against a motor vehicle with net book value of approximately RMB 206,000 as at 30 September 2012, which bears effective interest rate of 6.61% per annum.

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)**

Cash flow

For the 3 months ended 30 September 2012, the Group recorded net cash generated from operating activities of approximately RMB 13.8 million, net cash used in investing and financing activities of approximately RMB 30.7 million and RMB 16.6 million, respectively.

For the current 6 months ended 30 September 2012, the Group recorded net cash generated from operating activities of approximately RMB 33.3 million, net cash used in investing and financing activities of approximately RMB 34.5 million and RMB 18.6 million, respectively.

The lower increment in net cash generated from operating activities during 2Q2013 and 6M2013 as compared to 2Q2012 and 6M2012 was mainly due to the increase in sales revenue and longer credit terms given to customers. The Group will continue to work on improving the working capital management.

The cash outflow in investing activities for 2Q2013 and 6M2013 was mainly due to the purchase of property, plant and equipment for the detonating cords and boosters expansion/upgrading projects and the cash payment of RMB 19.3 million to a related party for the acquisition of land and building.

The cash outflow in financing activities of approximately RMB 16.6 million during 2Q2013 and RMB 18.6 million during 6M2013 was mainly due to the payment of dividend of approximately RMB 11.8 million and the repayment in short-term bank loan of RMB 4.0 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.**

Update on the additional detonating cords production facilities

Following our earlier announcements on the additional detonating cords production facilities to be built, the related construction work is on track as originally planned. The management targets to commence commercial operation of the new production facilities by April 2013.

The new production facilities will increase our detonating cords annual production capacity from 50 million meters to 80 million meters. Currently, our existing detonating cords facilities are operating at near-full production capacity.

The management will continue to monitor the situation and update shareholders accordingly.

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. (Cont'd)

Update on 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.

As mentioned in our announcement on 8 October 2012, the Group had undertaken to pay the Vendor the remaining RMB 19.3 million in accordance with the Agreement. As such, the Group paid an aggregate of RMB 38.7 million in cash to the Vendor.

The Group is in the process of obtaining bank loans of RMB 70.0 million in aggregate to be secured by the Property and shall pay to the Vendor the said RMB 70.0 million as and when the bank loans are received.

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

Update on raw materials price trend

As mentioned in our previous announcements, the Group has encountered a rise in raw materials prices (such as PETN and RDX) over the last few financial years, and it is expected that this trend may continue in the current financial year.

Together with other industry participants, we are currently in discussion with MIIT with regard to transferring the increase of raw materials cost via higher selling prices of our products. In the event that the increased raw material costs cannot be transferred via higher selling prices, it may likely have a significant impact to our financial performance in FY2013.

To mitigate the impact of rising raw materials costs, the management will also continue to closely monitor the prices of raw materials and enhance the cost containment and productivity initiatives in our operating activities.

Moderate growth of China's economy

China's economy has experienced moderate growth over the past few quarters and the Chinese government has initiated various stimulus projects to boost the economy. China is the world's biggest user and producer of coal and the country relies on coal for about 70% of its energy needs. While energy is consumed on a recurring basis, the slowdown of China's economy may affect coal mining activities which accounts for a significant portion of our product sales.

The management will continue to closely monitor the situation and update shareholders of any material impact to the Group accordingly.

11. Dividend

(a) *Current Financial Period Reported On*

Any dividend declared for the current financial period reported on?

None.

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

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

None.

(c) *Date payable*

Not applicable.

(d) *Books closure date*

Not applicable.

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

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

13. 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)	
		2Q2013	2Q2012	2Q2013	2Q2012
Name of interested person	Nature	RMB'000	RMB'000	RMB'000	RMB'000
Feixian Yinguang Transport Co., Ltd	Payment of transportation charges	1,902	782	-	-
Shandong Yinguang Commerical Explosives Sales and Services Co., Ltd	Sales of commercial explosives products	576	448	-	-
Shandong Yinguang Chemical Group Co., Ltd ⁽¹⁾	Sales of ammonium nitrate	402	-	84	567
Dyno Nobel Australia ⁽²⁾	Sales of commercial explosives	-	943	12,410	-
		6M2013	6M2012	6M2013	6M2012
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	2,979	1,999	-	-
Shandong Yinguang Commerical Explosives Sales and Services Co., Ltd	Sales of commercial explosives products	1,492	1,009	-	-
Shandong Yinguang Chemical Group Co., Ltd ⁽¹⁾	Sales of ammonium nitrate	402	-	1,712	1,854
Dyno Nobel Australia ⁽²⁾	Sales of commercial explosives	-	13,313	22,033	-

Footnote:

⁽¹⁾ The relevant general mandate was updated and approved at the Annual General Meeting held on 28 July 2011. However, it was not updated during the Annual General Meeting held on 27 July 2012 after considering the materiality of the amount transacted. As such, transactions after 27 July 2012 will not be considered as conducted under shareholders mandate pursuant to Rule 920.

⁽²⁾ The relevant general mandate was approved at the Extraordinary General Meeting held on 10 November 2011 and was updated and approved at the Annual General Meeting held on 27 July 2012.

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 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
6 NOVEMBER 2012**