



Fabchem China Limited

Company registration number: 200413128G

Financial Statements for the Second Quarter ended 30 September 2016 (“2Q2017”)

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 2016 to 30 Sept 2016 RMB'000	3 months from 1 Jul 2015 to 30 Sept 2015 RMB'000	Increase/(Decrease) %	6 months from 1 Apr 2016 to 30 Sept 2016 RMB'000	6 months from 1 Apr 2015 to 30 Sept 2015 RMB'000	Increase/(Decrease) %
Revenue	35,913	58,753	(38.9)	68,412	145,388	(52.9)
Cost of sales	(31,887)	(38,854)	(17.9)	(60,965)	(96,217)	(36.6)
Gross profit	4,026	19,899	(79.8)	7,447	49,171	(84.9)
<u>Other Items of Income</u>						
Interest income	72	221	(67.4)	330	466	(29.2)
Other gains – Note (i)	30,624	897	3314.0	31,022	1,074	2788.5
<u>Other Items of Expense</u>						
Distribution costs	(3,575)	(5,305)	(32.6)	(6,619)	(11,305)	(41.5)
Administrative expenses	(8,548)	(9,597)	(10.9)	(18,202)	(19,716)	(7.7)
Financial costs	(1,245)	(1,765)	(29.5)	(2,864)	(3,687)	(22.3)
Other losses – Note (ii)	-	(19)	N.M.	(1,316)	(19)	6826.3
Profit before income tax	21,354	4,331	393.1	9,798	15,984	(38.7)
Income tax expense	(181)	(2,469)	(92.7)	(406)	(7,029)	(94.2)
Profit attributable to shareholders	21,173	1,862	1037.1	9,392	8,955	4.9
Note (i) – Other Gains						
Foreign exchange adjustment gain	14	566	(97.5)	-	531	N.M.
Government Grant	279	305	(8.5)	519	517	0.4
Gain on disposal of subsidiary, net – Note (iii)	30,114	-	N.M.	30,114	-	N.M.
Allowance for impairment on trade receivables - reversal	217	26	734.6	389	26	1396.2
	30,624	897	3314.0	31,022	1,074	2788.5
Note (ii) – Other Losses						
Loss on disposal of property, plant and equipment	-	(19)	N.M.	(1,116)	(19)	5773.7
Foreign exchange adjustment loss	-	-	-	(200)	-	N.M.
	-	(19)	N.M.	(1,316)	(19)	6826.3
Note (iii) – Gain on disposal of subsidiary, net						
Consideration on disposal of subsidiary	*	-	N.M.	*	-	N.M.
Add: Net liabilities disposed of	63,430	-	N.M.	63,430	-	N.M.
Less: Waiver of amount due to Yinguang Technology	(33,316)	-	N.M.	(33,316)	-	N.M.
Gain on disposal of subsidiary, net	30,114	-	N.M.	30,114	-	N.M.

* Consideration on disposal is RMB 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 Jul 2016 to 30 Sept 2016	3 months from 1 Jul 2015 to 30 Sept 2015	Increase/(Decrease)	6 months from 1 Apr 2016 to 30 Sept 2016	6 months from 1 Apr 2015 to 30 Sept 2015	Increase/(Decrease)
RMB'000	RMB'000	%	RMB'000	RMB'000	%

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

Allowance for impairment on trade receivables - reversal	217	26	734.6	389	26	1396.2
Amortisation expenses	(707)	(634)	11.5	(1,478)	(1,267)	16.7
Depreciation expenses	(4,457)	(4,670)	(4.6)	(9,037)	(9,367)	(3.5)
Foreign exchange adjustment gain / (loss)	14	566	(97.5)	(200)	531	(137.7)
Gain on disposal of subsidiary, net	30,114	-	N.M.	30,114	-	N.M.
Loss on sale of property, plant and equipment	-	(19)	N.M.	(1,116)	(19)	5773.7
Interest expense	(1,245)	(1,765)	(29.5)	(2,864)	(3,687)	(22.3)
Interest income from bank deposits	72	221	(67.4)	330	466	(29.2)

Statement of comprehensive income

Profit attributable to shareholders	21,173	1,862	1037.1	9,392	8,955	4.9
Foreign currency translation difference	(18)	(180)	(90.0)	153	165	(7.3)
Total comprehensive income for the period	21,155	1,682	1157.7	9,545	9,120	4.7

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 Sept 2016 RMB'000	31 March 2016 RMB'000	30 Sept 2016 RMB'000	31 March 2016 RMB'000
ASSETS				
Non-current assets :				
Property, plant and equipment	215,898	223,197	130	44
Other assets, non-current	76,889	89,083	-	-
Investment in subsidiary	-	-	110,196	107,832
Deferred tax assets	7,455	7,514	-	-
Total non-current assets	300,242	319,794	110,326	107,876
Current assets :				
Inventories	38,692	41,820	-	-
Trade and other receivables (Note 1)	46,076	60,320	3,722	9,034
Other assets, current	22,400	21,640	176	137
Cash and cash equivalents	83,909	121,036	572	846
Total current assets	191,077	244,816	4,470	10,017
Total assets	491,319	564,610	114,796	117,893
EQUITY AND LIABILITIES				
Capital and reserves :				
Share capital	116,849	116,849	116,849	116,849
Retained earnings	171,725	162,333	(3,213)	2,671
Other reserves	89,025	88,872	(2,039)	(4,556)
Total equity	377,599	368,054	111,597	114,964
Non-Current liabilities :				
Deferred tax liabilities	1,725	2,365	-	-
Total non-current liabilities	1,725	2,365	-	-
Current liabilities :				
Trade and other payables (Note 2)	71,212	101,920	3,199	2,929
Other financial liabilities, current	38,000	83,663	-	-
Other liabilities	2,783	8,608	-	-
Total current liabilities	111,995	194,191	3,199	2,929
Total liabilities	113,720	196,556	3,199	2,929
Total liabilities and equity	491,319	564,610	114,796	117,893
Note 1				
Trade receivables	45,360	54,955	-	-
Amount receivable from subsidiary	-	-	3,722	9,034
Tax recoverable	386	3,832	-	-
Other receivables	330	1,533	-	-
Trade and other receivables	46,076	60,320	3,722	9,034
Note 2				
Trade payables and accruals	48,139	79,287	2,385	2,575
Other payables	23,073	22,633	814	354
Trade and other payables	71,212	101,920	3,199	2,929

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 2016		31 March 2016	
Secured	Unsecured	Secured	Unsecured
38,000	-	70,461	13,202

Amount repayable after one year

(RMB'000)

30 September 2016		31 March 2016	
Secured	Unsecured	Secured	Unsecured
-	-	-	-

Details of any collateral

As at 30 September 2016, the Group has aggregate secured short-term loans from financial institution of RMB 38.0 million.

Secured short-term bank loans of RMB 38.0 million are secured using our subsidiary, Shandong Yinguang Technology Co, Ltd ("Yinguang Technology")'s land and buildings with net book value of approximately RMB 81.8 million. The secured short-term bank loans bear an interest rate of 4.73% 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 2016 to 30 Sept 2016 RMB'000	3 months from 1 Jul 2015 to 30 Sept 2015 RMB'000	6 months from 1 Apr 2016 to 30 Sept 2016 RMB'000	6 months from 1 Apr 2015 to 30 Sept 2015 RMB'000
Cash flows from operating activities				
Profit before income tax	21,354	4,331	9,798	15,984
Adjustments for :				
Amortisation expenses	707	634	1,478	1,267
Allowance for impairment on trade receivables - reversal	(217)	(26)	(389)	(26)
Depreciation expense	4,457	4,670	9,037	9,367
Loss on sale of property, plant and equipments	-	19	1,116	19
Provision for safety expenses	603	716	1,190	1,569
Gain on disposal of subsidiary, net (Note A)	(30,114)	-	(30,114)	-
Interest income	(72)	(221)	(330)	(466)
Interest expenses	1,245	1,765	2,864	3,687
Net effect of exchange rate changes in translation of financial statements of Parent	(17)	(179)	150	164
Operating (loss) / profit before working capital changes	(2,054)	11,709	(5,200)	31,565
Inventories	4,047	(636)	1,099	15,980
Trade and other receivables	4,474	7,379	2,142	(1,791)
Other assets	(4,514)	1,618	(5,917)	(4,307)
Trade and other payables	9,345	(180)	(13,615)	(9,257)
Other liabilities	(132)	(953)	(1,360)	(3,101)
Cash generated from / (used in) operations	11,166	18,937	(22,851)	28,089
Income tax paid	(1)	(3,432)	(1)	(7,247)
Net cash from / (used in) operating activities	11,165	15,505	(22,852)	21,842
Cash flows from investing activities				
Proceeds from sale of property, plant and equipments	-	27	5,025	27
Purchase of property, plant and equipments	(6,275)	(2,774)	(8,715)	(4,940)
Purchase of land use rights	-	-	(58)	(10,437)
Decrease in cash restricted in use	-	-	30,000	7,000
Interest received	72	221	330	466
Cashflow from disposal of subsidiary (Note A)	(492)	-	(492)	-
Net cash (used in) / from investing activities	(6,695)	(2,526)	26,090	(7,884)
Cash flows from financing activities				
Payment of dividends	-	(3,184)	-	(3,184)
Proceeds from bank borrowings	8,000	28,900	89,890	119,391
Repayment of borrowings	(28,900)	(29,000)	(97,391)	(97,500)
Interest paid	(1,245)	(1,765)	(2,864)	(3,687)
Net cash (used in) / from financing activities	(22,145)	(5,049)	(10,365)	15,020
Net (decrease) / increase in cash	(17,675)	7,930	(7,127)	28,978
Cash and cash equivalents at beginning of the period	101,584	109,956	91,036	88,908
Cash and cash equivalents at end of the period (Note B)	83,909	117,886	83,909	117,886

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. (Cont'd)

Group		Group	
3 months from 1 Jul 2016 to 30 Sept 2016 RMB'000	3 months from 1 Jul 2015 to 30 Sept 2015 RMB'000	6 months from 1 Apr 2016 to 30 Sept 2016 RMB'000	6 months from 1 Apr 2015 to 30 Sept 2015 RMB'000

Note A: Disposal of subsidiary

During the current financial period, the book values of net assets of subsidiary disposed were as follows:

Property, plant and equipment	(839)	-	(839)	-
Other assets, non-current	(10,774)	-	(10,774)	-
Inventories	(2,029)	-	(2,029)	-
Trade receivables	(3,716)	-	(3,716)	-
Tax recoverable	(3,439)	-	(3,439)	-
Other receivables	(5,329)	-	(5,329)	-
Other assets, current	(5,157)	-	(5,157)	-
Cash and cash equivalents	(492)	-	(492)	-
Deferred tax liabilities	979	-	979	-
Trade payables and accruals	14,984	-	14,984	-
Other payables	2,109	-	2,109	-
Due to Yinguang Technology	33,316	-	33,316	-
Other financial liabilities, current	38,162	-	38,162	-
Other liabilities	5,655	-	5,655	-
Net liabilities disposed of	63,430	-	63,430	-
Gain on disposal	63,430	-	63,430	-
Consideration on disposal of subsidiary	*	-	*	-
Cash and cash equivalents	492	-	492	-
Cash flow on disposal	492	-	492	-

Gain on disposal of subsidiary, net

Consideration on disposal of subsidiary	*	-	*	-
Add: Net liabilities disposed of	63,430	-	63,430	-
Less: Waiver of amount due to Yinguang Technology	(33,316)	-	(33,316)	-
Gain on disposal of subsidiary, net	30,114	-	30,114	-

* Consideration on disposal is RMB 1

Note B: Analysis of Cash and cash equivalents

Cash and cash equivalents	83,909	147,886	83,909	147,886
Cash restricted in use *	-	(30,000)	-	(30,000)
Cash and cash equivalents, statement of cash flows	83,909	117,886	83,909	117,886

* Cash restricted in use is pledged for trading facilities

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	Capital reserve	Foreign exchange translation reserves	Retained earnings	Total
Group (RMB'000)						
Balance at 1 April 2016	116,849	44,117	44,000	755	162,333	368,054
Appropriation for the period	-	-	-	-	-	-
Total comprehensive income/(loss) for the period	-	-	-	171	(11,781)	(11,610)
Balance at 30 June 2016	116,849	44,117	44,000	926	150,552	356,444
Total comprehensive (loss)/income for the period	-	-	-	(18)	21,173	21,155
Balance at 30 September 2016	116,849	44,117	44,000	908	171,725	377,599
Balance at 1 April 2015	116,849	42,224	44,000	(84)	201,233	404,222
Appropriation for the period	-	1,217	-	-	(1,217)	-
Total comprehensive income for the period	-	-	-	345	7,093	7,438
Balance at 30 June 2015	116,849	43,441	44,000	261	207,109	411,660
Appropriation for the period	-	680	-	-	(680)	-
Dividend paid	-	-	-	-	(3,184)	(3,184)
Total comprehensive (loss)/income for the period	-	-	-	(180)	1,862	1,682
Balance at 30 September 2015	116,849	44,121	44,000	81	205,107	410,158

	Share capital	Foreign exchange translation reserve	Retained earnings	Total
Company (RMB'000)				
Balance at 1 April 2016	116,849	(4,556)	2,671	114,964
Total comprehensive income/(loss) for the period	-	3,430	(2,973)	457
Balance at 30 June 2016	116,849	(1,126)	(302)	115,421
Total comprehensive loss for the period	-	(913)	(2,911)	(3,824)
Balance at 30 September 2016	116,849	(2,039)	(3,213)	111,597
Balance at 1 April 2015	116,849	(12,815)	16,204	120,238
Total comprehensive income/(loss) for the period	-	1,903	(3,116)	(1,213)
Balance at 30 June 2015	116,849	(10,912)	13,088	119,025
Dividend paid	-	-	(3,184)	(3,184)
Total comprehensive loss for the period	-	(1,796)	(2,488)	(4,284)
Balance at 30 September 2015	116,849	(12,708)	7,416	111,557

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 2016	31 March 2016
Total number of issued shares	46,800,000	46,800,000

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 2016	3 months ended 30 Sept 2015	6 months ended 30 Sept 2016	6 months ended 30 Sept 2015
	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	45.24	3.98	20.07	19.13
Weighted average number of ordinary shares in issue for basic earnings per share	46,800,000	46,800,000	46,800,000	46,800,000

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 2016	31 March 2016	30 Sept 2016	31 March 2016
	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	806.84	786.44	238.46	245.65
Number of shares used in calculating net asset value	46,800,000	46,800,000	46,800,000	46,800,000

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 2016 ("2Q2017") decreased by approximately RMB 22.8 million or 38.9%, from RMB 58.8 million of the 3-month period ended 30 September 2015 ("2Q2016") to RMB 35.9 million in 2Q2017. The decrease in revenue was mainly due to lower sales across all of our products segments during 2Q2017 as compared to 2Q2016.

Our products can be categorised mainly into (a) explosive devices such as boosters; (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 2Q2017 and 2Q2016 and between the 6-month period ended 30 September 2016 ("6M2017") and the 6-month period ended 30 September 2015 ("6M2016") are as follows:

	2Q2017		2Q2016		% change
	RMB'000	%	RMB'000	%	
Explosives devices	6,060	16.9	23,555	40.1	(74.3)
Industrial fuse and initiating explosive devices	15,960	44.4	18,948	32.2	(15.8)
Industrial detonators	13,661	38.0	15,784	26.9	(13.5)
Ammonium Nitrate	54	0.2	299	0.5	(81.9)
Others ⁽¹⁾	178	0.5	167	0.3	6.6
	35,913	100.0	58,753	100.0	(38.9)
Within PRC	30,219	84.1	39,037	66.4	(22.6)
<u>Outside PRC</u>					
Australia	5,587	15.6	16,844	28.7	(66.8)
Others	107	0.3	2,872	4.9	(96.3)
	5,694	15.9	19,716	33.6	(71.1)
	35,913	100.0	58,753	100.0	(38.9)

	6M2017		6M2016		% change
	RMB'000	%	RMB'000	%	
Explosives devices	8,258	12.1	69,011	47.5	(88.0)
Industrial fuse and initiating explosive devices	34,650	50.6	42,381	29.1	(18.2)
Industrial detonators	25,094	36.7	32,402	22.3	(22.6)
Ammonium Nitrate	121	0.2	1,282	0.9	(90.6)
Others ⁽¹⁾	289	0.4	312	0.2	(7.4)
	68,412	100.0	145,388	100.0	(52.9)
Within PRC	61,967	90.6	86,535	59.5	(28.4)
<u>Outside PRC</u>					
Australia	5,587	8.2	54,375	37.4	(89.7)
Others	858	1.2	4,478	3.1	(80.8)
	6,445	9.4	58,853	40.5	(89.0)
	68,412	100.0	145,388	100.0	(52.9)

Note :

(1) Others include sales of raw materials and packaging materials

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 2Q2017, sales within PRC decreased by approximately RMB 8.8 million or 22.6% as compared to 2Q2016. For 6M2017, sales within PRC decreased by approximately RMB 24.6 million or 28.4% as compared to 6M2016. The decline was mainly due to the lower PRC sales across all our product segments and, in particular, our boosters production only resumed on 26 May 2016 after receiving a notification from the relevant authorities.

As mentioned in our previous announcements, the slowdown in China's economic growth and softening of global commodity prices have translated to reduced mining activities in China and as mining related activities accounted for a significant portion of the Group's overall revenue, the Group has been operating under a challenging and volatile business environment.

b) **Sales to Australia**

During 2Q2017 and 6M2017, sales to Australia decreased by approximately RMB 11.3 million or 66.8% and RMB 48.8 million or 89.7% respectively as our boosters production only resumed on 26 May 2016.

c) **Sales to other countries**

During 2Q2017 and 6M2017, sales to other countries decreased by approximately RMB 2.8 million and RMB 3.6 million respectively. Our boosters product segment accounted for majority of the Group's sales to other countries, hence our revenue in this market segment was significantly affected as our boosters production only resumed on 26 May 2016.

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 2Q2017, the Group's gross profit margin decreased to 11.2% from 33.9% and during 6M2017, the Group's gross profit margin decreased to 10.9% from 33.8%. The drop in gross profit margin was mainly due to the temporary stoppage of boosters production during the first 2 months of 1Q2017 and the lower sales recorded across all our product segments due to the challenging and volatile business environment.

Interest income / (Finance costs)

For 2Q2017 and 6M2017, interest income decreased by approximately RMB 149,000 and RMB 136,000, respectively, mainly due to lower average bank deposits during the current period under review.

For 2Q2017 and 6M2017, finance costs decreased by approximately RMB 520,000 and RMB 823,000, respectively, mainly due to lower bank lending interest rate and lower bank loans for the Group after the disposal of Hebei Yinguang Chemical Co., Ltd ("Hebei Yinguang").

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

Other gains / (Other losses)

For 2Q2017, other gains relate to foreign exchange adjustment gain of RMB 14,000, government grants of RMB 279,000, net gain on disposal of subsidiary of approximately RMB 30.1 million and a reversal of allowance for impairment on trade receivables of RMB 217,000. For 2Q2016, other gains relate to foreign exchange adjustment gain of RMB 566,000, government grants of RMB 305,000 and a reversal of allowance for impairment on trade receivables of RMB 26,000.

For 6M2017, other gains relate to government grants of RMB 519,000, net gain on disposal of our subsidiary of approximately RMB 30.1 million and a reversal of allowance for impairment on trade receivables of RMB 389,000. For 6M2016, other gains relate to foreign exchange adjustment gain of RMB 531,000, government grants of RMB 517,000, and a reversal of allowance for impairment on trade receivables of RMB 26,000.

For 6M2017, other losses relate to loss on disposal of property, plant and equipment of RMB 1.1 million and foreign exchange adjustment loss of RMB 200,000. For 2Q2016 and 6M2016, other losses relate to loss on disposal of property, plant and equipment of approximately RMB 19,000.

Foreign exchange adjustment gain/(losses) arose mainly from foreign exchange rate fluctuation among Renminbi (RMB), United States Dollar (US\$) and Singapore Dollars (S\$). Government grants relate to a grant for certain plant and equipment which will be amortised over 3 years and other ad hoc government grants for various purposes including safety awareness.

Net gain on disposal of subsidiary of RMB 30.1 million, after the waiver of amount due to Yinguang Technology, relates to the disposal of Hebei Yinguang that was approved by shareholders during the Extraordinary General Meeting held on 31 August 2016. For more information on the disposal of Hebei Yinguang, please refer to the Company's Circular dated 16 August 2016.

Loss on disposal of property, plant & equipment relates to the disposal of certain motor vehicles and equipment that were no longer in use and determined as part of the Group's cost-cutting measure.

Operating expenses

Corresponding to lower revenue registered in 2Q2017 and 6M2017, the Group's distribution costs decreased by approximately 32.6% and 41.5%, respectively. Administrative expenses also declined by approximately 10.9% and 7.7% for 2Q2017 and 6M2017, respectively as majority of administrative expenses are fixed components. Amortisation expenses increased approximately RMB 73,000 or 11.5% and RMB 211,000 or 16.7% to RMB 707,000 and RMB 1.5 million for 2Q2017 and 6M2017, respectively. The increase in amortization was mainly due to increase in land use rights during the last financial year.

Income tax expenses

The income tax expenses for 2Q2017 and 6M2017 were mainly related to the provision of withholding tax for undistributed profits of the subsidiary to the Group.

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)**

Statement of Financial Position

Property, plant and equipment decreased by approximately RMB 7.3 million, mainly due to the depreciation charged for the current period under review of approximately RMB 9.0 million, the disposal of certain property, plant and equipment of approximately RMB 6.1 million and the disposal of Hebei Yinguang during the current financial period reported on. The decrease was partially offset by the acquisition of property, plant and equipment of approximately RMB 8.7 million.

Other assets, non-current relate to the Group's land use rights, which decreased by approximately RMB 12.2 million mainly due to the disposal of Hebei Yinguang and the amortisation charges of approximately RMB 1.5 million recognized during the current period under review.

Deferred tax assets relate mainly to the deferred tax differences for the allowance for impairment on trade and other receivables, provision for safety expenses and deferred tax on tax losses incurred.

Inventories, trade and other receivables, other assets and cash and cash equivalents, represented approximately 20.3%, 24.1%, 11.7% and 43.9% respectively of our total current assets as at 30 September 2016.

Inventories decreased by approximately RMB 3.1 million or 7.5% to RMB 38.7 million as at 30 September 2016, as compared to RMB 41.8 million as at 31 March 2016. The decrease was mainly due to the disposal of Hebei Yinguang during the current financial period reported on and the increased usage of raw materials subsequent to the resumption of our boosters production on 26 May 2016.

During the current period under review, trade and other receivables decreased by approximately RMB 14.2 million or 23.6% to RMB 46.1 million as at 30 September 2016, mainly due to the disposal of Hebei Yinguang.

Other assets, current comprising the Group's prepayments, increased marginally by approximately RMB 0.8 million or 3.5% to RMB 22.4 million as at 30 September 2016, despite the decrease from the disposal of Hebei Yinguang. This was mainly due to the increase in prepayment for raw materials.

As at 30 September 2016, our current liabilities comprised of trade and other payables of approximately RMB 71.2 million, other current financial liabilities of approximately RMB 38.0 million and other liabilities of RMB 2.8 million. Non-current liabilities comprised of deferred tax liabilities of RMB 1.7 million.

Trade and other payables decreased by approximately RMB 30.7 million mainly due to the disposal of Hebei Yinguang.

As at 30 September 2016, other current financial liabilities of RMB 38.0 million relates to secured bank loans of Yinguang Technology. The decrease was mainly due to the disposal of Hebei Yinguang and the repayment of certain bank loans that were due during 2Q2017.

Other liabilities of RMB 2.8 million relate to the Group's provision for safety expenses, advances from customers and a deferred government grant. The decrease was mainly due to the disposal of Hebei Yinguang.

Deferred tax liabilities of RMB 1.7 million relates to the deferred tax liabilities for the withholding tax on dividend payable by our subsidiary in China. The decrease was due to the disposal of Hebei Yinguang.

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

Cash flow

For 2Q2017, the Group has net cash from operating activities of approximately RMB 11.2 million, net cash used in investing activities of approximately RMB 6.7 million and net cash used in financing activities of approximately RMB 22.1 million.

For 6M2017, the Group has net cash used in operating activities of approximately RMB 22.9 million, net cash from investing activities of RMB 26.1 million and net cash used in financing activities of approximately RMB 10.4 million.

The net cash from operating activities for 2Q2017 was mainly due to the higher trade and other payables and decrease in inventories and trade and other receivables. The net cash used in operating activities for 6M2017 was mainly due to the repayment of bills payable of RMB 30.0 million that was due during 1Q2017.

The net cash from investing activities of approximately RMB 26.1 million during 6M2017 was mainly due to the decrease in cash restricted in use of RMB 30.0 million and the proceeds from sale of property, plant and equipment of approximately RMB 5.0 million and was partially offset by the acquisition of property, plant and equipment of approximately RMB 8.7 million and the impact on cashflow from the disposal of Hebei Yinguang.

The net cash used in financing activities during 6M2017 was mainly due to the net decrease in bank loans of RMB 7.5 million and the payment of interest expenses.

9. **Where a forecast, or a prospect statement, has been previously disclosed to shareholders, any variance between it and the actual results.**

The current second quarter results for the 3-months period ended 30 September 2016 are in line with the Company's commentary as disclosed under paragraph 10 of the first quarter results announcement for the financial period ended 30 June 2016 and the Circular to Shareholders dated 16 August 2016 on the disposal of Hebei Yinguang.

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.**

China market updates

China continues to experience a slowdown in its economic growth and the broad-based weakness in global commodity prices continues to impact mining activities in China. In addition, as pollution and environmental issues remain key issues in China, the Chinese authorities have increased their scrutiny and regulations on industrial activities (such as refinery and power plant facilities) that are major causes of such issues. As a result, these factors have led to reduced mining activities in China and will continue to affect our local sales in China as most of our commercial explosives products are used in mining related activities.

The management will continue to monitor the situation and update Shareholders of any other material impact to the Group 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 our boosters production facilities

Announcements issued by the Company on 30 October 2015 and 3 December 2015 highlighted an unrelated explosion incident at a booster production plant in Shandong Province, Linyi City, Pingyi County. As a precautionary measure, the authorities required all commercial explosives manufacturers in Shandong Province to temporarily cease all production of commercial explosive products for safety inspections and clearance by the relevant authorities. Subsequently, on 30 November 2015, the Group received a notification from the relevant authorities to resume production of our commercial explosives products, except for boosters production as this product category will require additional safety inspection and clearance by the relevant authorities before the resumption of production.

On 25 May 2016, the Company received the notification from the relevant authorities for the resumption of our automated boosters production and Yinguang Technology's automated production line for boosters had resumed production on 26 May 2016. Yinguang Technology's second automated production line for boosters is in the final stage of inspection.

However, adhering to new safety directives, Yinguang Technology's two manual production lines of boosters will cease production and the Group will likely be converting these two manual production lines into automated production sometime in the future, which would lead to an improvement in product quality and further enhance the safety standards of the boosters' production facilities. This initiative is aligned with the Group's earlier announced plans to step up our boosters automation upgrading program. As a result, the Group's production capacity of boosters will be reduced pending the conversion and completion of the automated production lines.

Thus, we would expect our revenue and profitability to be impacted during this transition period.

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)	
		2Q2017	2Q2016	2Q2017	2Q2016
Name of interested person	Nature	RMB'000	RMB'000	RMB'000	RMB'000
Shandong Yinguang Security Services Co., Ltd	Provision of security services	6,500	-	-	-
Wulian Hanyue Blasting Services Co., Ltd	Sales of commercial explosives	2,462	-	-	-
Dyno Nobel Australia ⁽¹⁾	Sales of commercial explosives	-	-	669	3,757
		6M2017	6M2016	6M2017	6M2016
Name of interested person	Nature	RMB'000	RMB'000	RMB'000	RMB'000
Shandong Yinguang Security Services Co., Ltd	Provision of security services	6,500	7,200	-	-
Wulian Hanyue Blasting Services Co., Ltd	Sales of commercial explosives	2,462	-	-	-
Dyno Nobel Australia ⁽¹⁾	Sales of commercial explosives	-	-	669	13,203

Footnote:

⁽¹⁾ 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 28 July 2016.

14. Confirmation that the issuer has procured undertakings from all its directors and executive officers (in the format set out in Appendix 7.7) under Rule 720(1).

The Company hereby confirms that it has procured undertakings from all its directors and executive officers under Rule 720(1) of the Listing Manual.

15. 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
14 NOVEMBER 2016**