Fabchem China Limited

Company registration number : 200413128G

Financial Statements for the Third Quarter ended 31 December 2007 ("3Q2008")

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

1(a) An income statement (for the group) together with a comparative statement for the corresponding period of the immediately preceding financial year.

	Group			Group		
	3 months from 1 Oct 2007 to 31 Dec 2007 RMB'000	3 months from 1 Oct 2006 to 31 Dec 2006 RMB'000	Increase/ (Decrease) %	9 months from 1 Apr 2007 to 31 Dec 2007 RMB'000	9 months from 1 Apr 2006 to 31 Dec 2006 RMB'000	Increase/ (Decrease) %
Revenue	59,815	41,214	45.1	157,619	115,702	36.2
Cost of sales	(33,920)	(26,014)	30.4	(90,980)	(70,413)	29.2
Gross profit	25,895	15,200	70.4	66,639	45,289	47.1
Financial income – Note (i)	255	24	962.5	315	228	38.2
Financial expense	(64)	(6)	966.7	(83)	(38)	118.4
Distribution costs	(2,648)	(2,856)	(7.3)	(6,757)	(6,437)	5.0
Administrative expenses	(6,485)	(3,822)	69.7	(16,188)	(11,741)	37.9
Other credits/(charges)	-	-	-	1	(98)	(101.0)
Profit before income tax	16,953	8,540	98.5	43,927	27,203	61.5
Income tax expense	(3,400)	-	N.M.	(8,269)	-	N.M.
Net profit attributable to shareholders	13,553	8,540	58.7	35,658	27,203	31.1
Note (i) – Financial income						
Interest income from bank deposits	164	9	1722.2	192	212	(9.4)
Foreign exchange adjustment gain	91	15	506.7	123	16	668.8
	255	24	962.5	315	228	38.2

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

Interest income from bank deposits	164	9	1722.2	192	212	(9.4)
Interest expense	(64)	(6)	966.7	(83)	(38)	118.4
Depreciation expenses	(638)	(622)	2.6	(2,023)	(1,530)	32.2
Fixed assets written-off	-	-	-	-	(98)	N.M.
Foreign exchange adjustment gain	91	15	506.7	123	16	668.8
Gain on sale of fixed assets	-	-	-	1	-	N.M.
Write-off for stocks obsolescence	-	-	-	260	-	N.M.

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

	Group		Company	
	31 December 2007 RMB'000	31 March 2007 RMB'000	31 December 2007 RMB'000	31 March 2007 RMB'000
ASSETS				
Current assets :				
Cash and cash equivalents	115,546	129,008	932	396
Trade and other receivables (Note 1)	118,538	93,307	6,528	84
Inventories	19,442	12,238	-	-
Total current assets	**253,526**	**234,553**	**7,460**	**480**
Non-current assets :				
Investment in subsidiary	-	-	114,045	115,030
Property, plant and equipment	36,396	22,205	497	702
Total non-current assets	**36,396**	**22,205**	**114,542**	**115,732**
Total assets	**289,922**	**256,758**	**122,002**	**116,212**
LIABILITIES AND EQUITY				
Current liabilities :				
Trade and other payables (Note 2)	36,336	32,605	4,074	3,112
Finance lease obligation	69	67	69	67
Provision for taxation	3,361	3,221	-	-
Total current liabilities	**39,766**	**35,893**	**4,143**	**3,179**
Non-Current liabilities :				
Finance lease obligation	347	403	347	403
Total non-current liabilities	**347**	**403**	**347**	**403**
Total liabilities	**40,113**	**36,296**	**4,490**	**3,582**
Capital and reserves :				
Issued capital	116,849	116,849	116,849	116,849
Reserves	132,960	103,613	663	(4,219)
Total equity	**249,809**	**220,462**	**117,512**	**112,630**
Total liabilities and equity	**289,922**	**256,758**	**122,002**	**116,212**

Note 1

Trade receivables	104,660	90,164	-	-
Dividend receivable from subsidiary	-	-	6,070	-
Other receivables	13,878	3,143	458	84
Trade and other receivables	118,538	93,307	6,528	84

Note 2

Trade payables and accruals	30,393	28,504	4,030	2,971
Other payables	5,943	4,101	44	141
Trade and other payables	36,336	32,605	4,074	3,112

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 2007		31 March 2007	
Secured	**Unsecured**	**Secured**	**Unsecured**
69	-	67	-

Amount repayable after one year

(RMB'000)

31 December 2007		31 March 2007	
Secured	**Unsecured**	**Secured**	**Unsecured**
347	-	403	-

Details of any collateral

As at 31 December 2007, the Group has secured borrowings comprising a 7 years finance lease for the purchase of a motor vehicle. The finance lease is secured against the motor vehicle with net book value of approximately RMB 477,000, and bears effective interest rate of 6.61% per annum.

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

	Group		Group	
	3 months from 1 Oct 2007 to 31 Dec 2007 RMB'000	**3 months from 1 Oct 2006 to 31 Dec 2006 RMB'000**	**9 months from 1 Apr 2007 to 31 Dec 2007 RMB'000**	**9 months from 1 Apr 2006 to 31 Dec 2006 RMB'000**
Cash flows from operating activities				
Net profit attributable to shareholders	13,553	8,540	35,658	27,203
Adjustments for :				
Depreciation expense	638	622	2,023	1,530
Fixed assets written-off	-	-	-	98
Gain on sale of fixed assets	-	-	(1)	-
Income tax expenses	3,400	-	8,269	-
Interest income	(164)	(9)	(192)	(212)
Interest expenses	64	6	83	38
Write-off for stocks obsolescence	-	-	260	-
Operating profit before working capital changes	17,491	9,159	46,100	28,657
Trade and other receivables	(20,596)	(5,564)	(25,231)	(12,510)
Inventories	2,946	3,361	(7,464)	(5,752)
Trade and other payables	4,943	914	4,250	(23,669)
Cash generated from operations	4,784	7,870	17,655	(13,274)
Income tax paid	(3,111)	-	(8,129)	-
Net cash from / (used in) operating activities	**1,673**	**7,870**	**9,526**	**(13,274)**
Cash flows from investing activities				
Proceeds from sale of fixed assets	-	-	13	-
Purchase of property, plant and equipment	(5,260)	(1,964)	(16,739)	(16,565)
Interest received	164	9	192	212
Net cash used in investing activities	**(5,096)**	**(1,955)**	**(16,534)**	**(16,353)**
Cash flows from financing activities				
Dividend paid	-	-	(6,154)	-
Interest paid	(64)	(6)	(83)	(38)
Proceeds from issuing shares, net	-	-	-	82,162
Repayment of finance lease obligation	(17)	(8)	(54)	(98)
Net cash (used in) / from financing activities	**(81)**	**(14)**	**(6,291)**	**82,026**
Net effect of exchange rate changes in consolidating foreign currency financial statements	(119)	(1)	(163)	625
Net (decrease)/increase in cash	(3,623)	5,900	(13,462)	53,024
Cash at beginning of the period	119,169	85,589	129,008	38,465
Cash at end of the period	**115,546**	**91,489**	**115,546**	**91,489**

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.

Group (RMB'000)	Issued capital	Statutory reserves	Foreign currency translation reserves	Retained earnings	Total
Balance at 1 April 2007	116,849	14,870	712	88,031	220,462
Foreign currency translation difference	-	-	(38)	-	(38)
Net income recognised directly in equity	-	-	(38)	-	(38)
Net profit for the period	-	-	-	22,105	22,105
Total recognised income and expense for the period	-	-	(38)	22,105	22,067
Dividend paid	-	-	-	(6,154)	(6,154)
Appropriation for the period	-	2,774	-	(2,774)	-
Balance at 30 September 2007	116,849	17,644	674	101,208	236,375
Foreign currency translation difference	-	-	(119)	-	(119)
Net income recognised directly in equity	-	-	(119)	-	(119)
Net profit for the period	-	-	-	13,553	13,553
Total recognised income and expense for the period	-	-	(119)	13,553	13,434
Appropriation for the period	-	1,278	-	(1,278)	-
Balance at 31 December 2007	116,849	18,922	555	113,483	249,809
Balance at 1 April 2006	34,687	10,206	77	50,489	95,459
Foreign currency translation difference	-	-	626	-	626
Net income recognised directly in equity	-	-	626	-	626
Net profit for the period	-	-	-	18,663	18,663
Total recognised income and expense for the period	-	-	626	18,663	19,289
Issue of share capital	82,162	-	-	-	82,162
Appropriation for the period	-	2,193	-	(2,193)	-
Balance at 30 September 2006	116,849	12,399	703	66,959	196,910
Foreign currency translation difference	-	-	(2)	-	(2)
Net income recognised directly in equity	-	-	(2)	-	(2)
Net profit for the period	-	-	-	8,540	8,540
Total recognised income and expense for the period	-	-	(2)	8,540	8,538
Appropriation for the period	-	1,022	-	(1,022)	-
Balance at 31 December 2006	116,849	13,421	701	74,477	205,448
		(a)	(a)		

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. (Cont'd)

Company (RMB'000)	Issued capital	Foreign currency translation reserves	Retained earnings	Total
Balance at 1 April 2007	116,849	2,599	(6,818)	112,630
Foreign currency translation difference	-	(936)	-	(936)
Net income recognised directly in equity	-	(936)	-	(936)
Net profit for the period	-	-	4,845	4,845
Total recognised income and expense for the period	-	(936)	4,845	3,909
Dividend paid	-	-	(6,154)	(6,154)
Balance at 30 September 2007	116,849	1,663	(8,127)	110,385
Foreign currency translation difference	-	(207)	-	(207)
Net income recognised directly in equity	-	(207)	-	(207)
Net profit for the period	-	-	7,334	7,334
Total recognised income and expense for the period	-	(207)	7,334	7,127
Dividend paid	-	-	-	-
Balance at 31 December 2007	116,849	1,456	(793)	117,512
Balance at 1 April 2006	34,687	77	(645)	34,119
Foreign currency translation difference	-	626	-	626
Net income recognised directly in equity	-	626	-	626
Net loss for the period	-	-	(3,269)	(3,269)
Total recognised income and expense for the period	-	626	(3,269)	(2,643)
Issue of share capital	82,162	-	-	82,162
Balance at 30 September 2006	116,849	703	(3,914)	113,638
Foreign currency translation difference	-	1,762	-	1,762
Net income recognised directly in equity	-	1,762	-	1,762
Net loss for the period	-	-	(1,680)	(1,680)
Total recognised income and expense for the period	-	1,762	(1,680)	82
Issue of share capital	-	-	-	-
Balance at 31 December 2006	116,849	2,465	(5,594)	113,720
		(a)		

(a) Not available for distribution as cash dividends

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.

On 17 April 2006, the Company was admitted to the Official List of the SGX-ST. The Company issued a total of 59 million New Shares of S$0.32 each. The proceeds of the Initial Public Offering ("IPO") amounted to approximately S$18.88 million and total IPO expenses attributed to the IPO amounted to approximately S$2.4 million or approximately RMB 12.0 million. Net IPO proceeds of approximately S$16.5 million or approximately RMB 82.2 million was capitalised as the Company's issued and paid up capital. For more information on the IPO, please refer to our Company's Prospectus (the "Prospectus") dated 5 April 2006.

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 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 2007	**3 months ended 31 Dec 2006**	**9 months ended 31 Dec 2007**	**9 months ended 31 Dec 2006**
	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	5.79	3.65	15.24	11.80
Weighted average number of ordinary shares in issue for basic earnings per share	234,000,000	234,000,000	234,000,000	230,567,273

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 2007	**31 Mar 2007**	**31 Dec 2007**	**31 Mar 2007**
	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	106.76	94.21	50.22	48.13
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

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; and (c) industrial detonators such as non-electric detonators and piston non-electric detonators. The breakdown of our revenue by the above product types and geographical segments for the 3rd quarter ended 31 December 2006 ("3Q2007") and 31 December 2007 ("3Q2008") and for the 9 months ended 31 December 2006 ("9M2007") and 31 December 2007 ("9M2008") are as follows:

	3Q2008		3Q2007		%
	RMB'000	%	RMB'000	%	change
Explosives devices	25,293	42.3	17,399	42.2	45.4
Industrial fuse and initiating explosive devices	18,769	31.4	16,066	39.0	16.8
Industrial detonators	15,585	26.0	7,598	18.4	105.1
Others (1)	168	0.3	151	0.4	11.3
	59,815	**100.0**	**41,214**	**100.0**	**45.1**

	3Q2008		3Q2007		%
	RMB'000	%	RMB'000	%	change
Within PRC	40,361	67.5	22,954	55.7	75.8
Outside PRC					
Sales through export distributors (2)	9,289	15.5	513	1.3	1710.7
Australia	4,607	7.7	12,787	31.0	(64.0)
South Africa	3,790	6.3	3,808	9.2	(0.5)
Others	1,768	3.0	1,152	2.8	53.5
	19,454	32.5	18,260	44.3	6.5
	59,815	**100.0**	**41,214**	**100.0**	**45.1**

	9M2008		9M2007		%
	RMB'000	%	RMB'000	%	change
Explosives devices	64,525	40.9	49,877	43.1	29.4
Industrial fuse and initiating explosive devices	52,115	33.1	48,044	41.5	8.5
Industrial detonators	40,409	25.6	17,602	15.2	129.6
Others (1)	570	0.4	179	0.2	218.4
	157,619	**100.0**	**115,702**	**100.0**	**36.2**

	9M2008		9M2007		%
	RMB'000	%	RMB'000	%	change
Within PRC	105,339	66.8	79,641	68.8	32.3
Outside PRC					
Sales through export distributors (2)	13,957	8.9	10,541	9.1	32.4
Australia	17,069	10.8	17,660	15.3	(3.3)
South Africa	15,083	9.6	4,362	3.8	245.8
Others	6,171	3.9	3,498	3.0	76.4
	52,280	33.2	36,061	31.2	45.0
	157,619	**100.0**	**115,702**	**100.0**	**36.2**

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)**

<u>Revenue (cont'd)</u>

The revenue for the 3rd quarter ended 31 December 2007 increased by approximately RMB 18.6 million or 45.1% from 3Q2007's RMB 41.1 million to 3Q2008's RMB 59.8 million, mainly due to the increase in local PRC sales and sales through export distributors.

a) <u>Sales within PRC</u>

Sales within PRC increased by approximately RMB 17.4 million or 75.8% during 3Q2008 as compared to 3Q2007. The increase is mainly due to the increase in the PRC sales of our two new products, seismic charges and piston non-electric detonators. Seismic charges and piston non-electric detonators increased by approximately RMB 1.5 million or 115.9% and RMB 8.0 million or 211.0% respectively for 3Q2008. Local PRC sale of boosters also increased by approximately RMB 6.0 million or 288.3% during 3Q2008.

For 9M2008, local PRC sale of seismic charges and piston non-electric detonators increased by approximately RMB 7.3 million or 226.1% and RMB 11.8 million or 89.1% respectively.

b) <u>Sales through export distributors</u>

Sales through export distributors increased by approximately RMB 8.8 million or 1710.7% during 3Q2008 as compared to 3Q2007. The increase is mainly due to the customers' shipping requirements for delivery of goods.

For 9M2008, sales through export distributors increased by approximately RMB 3.4 million or 32.4%.

c) <u>Sales to Australia</u>

Sales to Australia decreased by RMB 8.2 million or 64.0% during 3Q2008 as compared to 3Q2007. The decrease is mainly due to the customers' shipping requirements for delivery of goods.

For 9M2008, sales to Australia decreased marginally by approximately RMB 0.6 million or 3.3%.

d) <u>Sales to South Africa</u>

Sales to South Africa remain relatively constant during the 3Q2008 as compared to 3Q2007.

For 9M2008, sales to South Africa increased by approximately RMB 10.7 million or 245.8%. Looking forward, South Africa will be an important market for initiation system sales. Currently, all revenue from South Africa is derived from the sale of piston non-electric detonators.

All local PRC sales contracts and export applications sought by export agents have been approved by the Commission of Science, Technology and Industry for National Defense ("the Commission").

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

Gross profit margin improved by approximately 6.4 percentage points from 3Q2007's 36.9% to 3Q2008's 43.3%. For 9M2008, gross profit margin improved by approximately 3.2 percentage points from 9M2007's 39.1% to 9M2008's 42.3%.

The increase in our gross profit margin was mainly a result of increased sourcing efficiencies and utilisation of re-processed RDX. Re-processed RDX is an alternative explosive chemical which we had purchased from China's State Reserves Bureau ("CSRB") at very competitive prices in April 2007.

Operating expenses

For 3Q2008, distribution costs decreased by approximately RMB 0.2 million or 7.3% from 3Q2007's RMB 2.8 million to 3Q2008's RMB 2.6 million. The decrease is mainly due to lower bulk discounts given to our customers. Bulk discount will be offered to customers based on negotiation with the customers and to be approved by the relevant department heads.

For 9M2008, distribution costs increased by approximately RMB 0.3 million or 5.0% from 9M2007's RMB 6.4 million to 9M2008's RMB 6.7 million is mainly due to an increase in sales revenue during 9M2008 as compared to 9M2007.

For 3Q2008, general and administrative expenses increased by approximately RMB 2.7 million or 69.7% from 3Q2007's RMB 3.8 million to 3Q2008's RMB 6.5 million. For 9M2008, general and administrative expenses increased by approximately RMB 4.5 million or 37.9% from 9M2007's RMB 11.7 million to 9M2008's RMB 16.2 million.

The increase in general and administrative expenses for the current period under review is mainly due to an increase in corporate expenses and expenses related to increase in revenue, e.g. provision for safety expenses as required by the Commission.

Other charges for 9M2008 relate to the gain on sale of fixed assets.

Income tax expenses

According to the Enterprise Income Tax Law for Foreign Investment Enterprises and Foreign Enterprises of the PRC, the China operating subsidiary of the Group, Shandong Yinguang Technology Co., Ltd. ("Yinguang Technology"), qualifies to enjoy a five-year tax incentive period. Under the terms of the said tax incentive period, Yinguang Technology is exempted from paying income tax for the first two profitable years of operations and is granted a 50.0% relief from the state income tax of 30.0% for the following three years. The first profitable year of Yinguang Technology is 2005. Hence, the profits derived during calendar years 2005 and 2006 were exempted from income tax. With effect from 1 January 2007, Yinguang Technology is liable to pay 15% tax, representing 50.0% of the state income tax of 30.0%, for the next 3 consecutive years.

Yinguang Technology is exempted from paying the provincial income tax of 3.0% during its years of operations.

The effective tax rate for 9M208 was 18.8% (9M2007 : Nil). This is higher than the PRC concessionary tax rate of 15% due to the 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

Cash and cash equivalents, trade and other receivables and inventories represent approximately 45.6% (FY2007: 55.0%), 46.7% (FY2007: 39.8%) and 7.7% (FY2007: 5.2%) of our total current assets as at 31 December 2007.

Trade receivables increased by approximately RMB 14.5 million or 16.1% mainly due to the higher sales for the last 3 months ended 31 December 2007. Other receivables increased by approximately RMB 10.7 million or 341.6% mainly due to the prepayment of certain machineries for our new production facilities and the prepayment for the raw materials, i.e. re-processed RDX that we purchased from CSRB.

Inventories increased by approximately RMB 7.2 million or 58.9% from FY2007's RMB 12.2 million to 3Q2008's RMB 19.4 million. The increase is mainly due to the increase in raw materials of approximately RMB 7.8 million, in particular the re-processed RDX that we purchased from CSRB were partially paid and received during the 9 months period under review.

As at 31 December 2007, our Group's fixed assets increased by approximately RMB 14.2 million or 63.9% from FY2007's RMB 22.2 million to RMB 36.4 million. The increase is mainly due to the construction of the boosters manufacturing facility and the piston non-electric detonators manufacturing facility.

As at 31 December 2007, our current liabilities comprise trade and other payables of approximately RMB 36.3 million, finance lease obligation of approximately RMB 69,000, provision for taxation of approximately RMB 3.4 million. Non-current finance lease obligation is approximately RMB 347,000.

There are no major fluctuations for trade payables and other payables.

Total finance lease obligation of approximately RMB 416,000 is in relation to a 7 years finance lease secured against a motor vehicle with net book value of approximately RMB 477,000 and bears effective interest rate of 6.61% per annum.

Cash flow

For 3Q2008, the Group has net cash generated from operating activities of approximately RMB 1.7 million as compared to RMB 7.9 million for 3Q2007. Lower net cash generated from operating activities for 3Q2008 is mainly due to the higher sales generated as compared to 3Q2007 and the prepayment for certain machineries.

For 9M2008, the Group has net cash generated from operating activities of approximately RMB 9.5 million as compared to a RMB 13.3 million cash outflows for the previous corresponding period. The improved operating cash flow is mainly due to the improved debts recovery during 9M2008 and also due to the payment of IPO expenses during 9M2007. The Group is actively putting up measures to further improve our recoverability.

For 9M2008, our net cash used in investing activities is approximately RMB 16.5 million mainly due to the construction of our two new production facilities. As mentioned in our half year results announcement, the Group had commenced the construction of a 3,000 tonnes boosters facility and a 60 million units detonators facility.

For 9M2008, our net cash used in financing activities is approximately RMB 6.3 million mainly due to the payment of dividends to shareholders of approximately RMB 6.15 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.

Shortage of coal supply in the PRC

During the early 2008's winter season, the severe winter condition in the central, eastern and southern parts of the PRC has resulted in an unexpected surge in coal usage as a supply of energy for power generation. Coal represents about 70 per cent of the energy supply in the PRC. Coal supply in the PRC decreased because of the unexpected surge in demand for energy during the period.

Beijing News reported on 22nd January 2008: "The Central China Power Grid, which covers the provinces of Jiangxi, Hubei, Hunan and Sichuan, as well as Chongqing Municipality, has begun to ration electricity to Hubei, Sichuan and Chongqing due to an acute shortage in coal stockpiles and strained coal transportation affected by adverse weather conditions".

With the current shortage and increasing demand for coal, we expect coal mine operators to increase their mining activities and thus usage of our commercial explosives products will accelerate accordingly.

Boosters and Detonators facilities

As mentioned above under the 'Cash flow' section and in our half year results announcement, the Group had commenced the construction of a 3,000 tonnes Boosters and a 60 million units Piston non-electric detonators production facilities. The management is expecting to complete the construction and commence production during the first half of FY2009. Upon the commissioning of the new Piston non-electric detonators facility, the existing 20 million units facility will be converted for trial and testing purposes.

The progress of the above-mentioned construction is within our expected timeline and we expect that these two new production facilities will bring positive contributions to our FY2009 results.

Use of IPO proceeds

As disclosed in the Prospectus, the Group will be using approximately RMB 32 million of the IPO proceeds to set up and expand manufacturing facilities for production of our new products, i.e seismic charges and piston non-electric detonators, and approximately RMB 1 million of the IPO proceeds for the expansion of our existing products, i.e. boosters and detonating cords.

The Group had announced on 30 May 2006 that we had acquired the seismic charges manufacturing facilities for approximately RMB 12.2 million. As mentioned above, the piston non-electric detonators and boosters manufacturing facilities are currently under construction. The management would also like to inform the shareholders that we are currently undergoing feasibility studies for an additional 20 million metres of detonating cords manufacturing facility. With this new 20 million metres of detonating cords capacity, the Group's detonating cords capacity will be increased to 70 million metres.

For the 9 months ended 31 December 2007, the Group has further utilised RMB 3.1 million of the IPO proceeds for the acquisition of equipments and machineries for the piston non-electric detonators. Total IPO proceeds utilised up till 31 December 2007 is approximately RMB 15.3 million.

Mergers and acquisitions

On 19 December 2007, the Group announced the proposed acquisition of Hebei Yinguang Chemical Co., Ltd ("Hebei Yinguang"). Hebei Yinguang is principally engaged in the business of manufacturing and selling ammonium nitrate. Ammonium Nitrate is a major raw material for explosives. With involvement of such specialty raw material, the Group can deliver extra value to the explosives industry thus tightened the relationship with the industry for the Group's further growth.

For more information on the above proposed acquisition, please refer to our announcement on 19 December 2007.

11. Dividend

(a) ***Current Financial Period Reported On***
Any dividend declared for the current financial period reported on?

None.

(b) ***Corresponding Period of the Immediately Preceding Financial Year***
Any dividend declared for the corresponding period of the immediately preceding financial year?

None.

(c) ***Date payable***

Not applicable.

(d) ***Books closure date***

Not applicable.

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

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

13. Negative assurance confirmation pursuant to Rule 705(4) of the Listing Manual

On behalf of the Board of Directors of the Company, we, the undersigned, hereby confirm to the best of our knowledge that nothing has come to the attention of the Board of Directors of the Company which may render the unaudited 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	Bao Hongwei
Managing Director	Director

BY ORDER OF THE BOARD
SUN BOWEN
MANAGING DIRECTOR
13 FEBRUARY 2008