



Fabchem China Limited

Company registration number : 200413128G

Financial Statements for the Half year ended 30 September 2007 (“HY2008”)

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		Increase/ (Decrease) %
	1 Apr 2007 to 30 Sept 2007 RMB'000	1 Apr 2006 to 30 Sept 2006 RMB'000	
Revenue	97,804	74,488	31.3
Cost of sales	(57,060)	(44,399)	28.5
Gross profit	40,744	30,089	35.4
Financial income – Note (i)	60	204	(70.6)
Financial expense	(19)	(32)	(40.6)
Distribution costs	(4,109)	(3,581)	14.7
Administrative expenses	(9,703)	(7,919)	22.5
Other credits/(charges)	1	(98)	N.M.
Profit before income tax	26,974	18,663	44.5
Income tax expense	(4,869)	-	N.M.
Net profit attributable to shareholders	22,105	18,663	18.4
Note (i) – Financial income			
Interest income from bank deposits	28	203	(86.2)
Foreign exchange adjustment gain	32	1	3,100.0
	60	204	(70.6)

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

Interest income from bank deposits	28	203	(86.2)
Interest expense	(19)	(32)	(40.6)
Depreciation expenses	(1,385)	(908)	52.5
Fixed assets written-off	-	(98)	N.M.
Foreign exchange adjustment gain	32	1	3,100.0
Gain on sale on 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	
	30 September 2007 RMB'000	31 March 2007 RMB'000	30 September 2007 RMB'000	31 March 2007 RMB'000
ASSETS				
Current assets :				
Cash and cash equivalents	120,485	129,008	192	396
Trade and other receivables (Note 1)	97,942	93,307	194	84
Inventories	22,388	12,238	-	-
Total current assets	240,815	234,553	386	480
Non-current assets :				
Investment in subsidiary	-	-	114,132	115,030
Property, plant and equipment	31,747	22,205	516	702
Total non-current assets	31,747	22,205	114,648	115,732
Total assets	272,562	256,758	115,034	116,212
LIABILITIES AND EQUITY				
Current liabilities :				
Trade and other payables (Note 2)	31,366	32,605	2,900	3,112
Finance lease obligation	68	67	68	67
Provision for taxation	3,072	3,221	-	-
Bank overdraft	1,316	-	1,316	-
Total current liabilities	35,822	35,893	4,284	3,179
Non-Current liabilities :				
Finance lease obligation	365	403	365	403
Total non-current liabilities	365	403	365	403
Total liabilities	36,187	36,296	4,649	3,582
Capital and reserves :				
Issued capital	116,849	116,849	116,849	116,849
Reserves	119,526	103,613	(6,464)	(4,219)
Total equity	236,375	220,462	110,385	112,630
Total liabilities and equity	272,562	256,758	115,034	116,212
Note 1				
Trade receivables	89,087	90,164	-	-
Other receivables	8,855	3,143	194	84
Trade and other receivables	97,942	93,307	194	84
Note 2				
Trade payables and accruals	27,572	28,504	2,809	2,971
Other payables	3,794	4,101	91	141
Trade and other payables	31,366	32,605	2,900	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)

30 September 2007		31 March 2007	
Secured	Unsecured	Secured	Unsecured
68	1,316	67	-

Amount repayable after one year

(RMB'000)

30 September 2007		31 March 2007	
Secured	Unsecured	Secured	Unsecured
365	-	403	-

Details of any collateral

As at 30 September 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 492,000, 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	
	1 Apr 2007 to 30 Sept 2007 RMB'000	1 Apr 2006 to 30 Sept 2006 RMB'000
Cash flows from operating activities		
Net profit attributable to shareholders	22,105	18,663
Adjustments for :		
Depreciation expense	1,385	908
Fixed assets written-off	-	98
Gain on sale of fixed assets	(1)	-
Income tax expenses	4,869	-
Interest income	(28)	(203)
Interest expenses	19	32
Write-off for stocks obsolescence	260	-
Operating profit before working capital changes	28,609	19,498
Trade and other receivables	(4,635)	(6,946)
Inventories	(10,410)	(9,113)
Trade and other payables	(693)	(24,583)
Cash generated from operations	12,871	(21,144)
Income tax paid	(5,018)	-
Net cash from / (used in) operating activities	7,853	(21,144)
Cash flows from investing activities		
Proceeds from sale of fixed assets	13	-
Purchase of property, plant and equipment	(11,479)	(14,601)
Interest received	28	203
Net cash used in investing activities	(11,438)	(14,398)
Cash flows from financing activities		
Dividend paid	(6,154)	-
Interest paid	(19)	(32)
Proceeds from issuing shares	-	82,162
Repayment of finance lease obligation	(37)	(90)
Net cash (used in) / from financing activities	(6,210)	82,040
Net effect of exchange rate changes in consolidating foreign currency financial statements	(44)	626
Net (decrease) / increase in cash	(9,839)	47,124
Cash at beginning of the period	129,008	38,465
Cash at end of the period	119,169	85,589
Represented by:		
Cash and cash equivalents	120,485	85,589
Bank overdraft	(1,316)	-
	119,169	85,589

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.

	Issued capital	Statutory reserves	Foreign currency translation reserves	Retained earnings	Total
Group (RMB'000)					
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
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
		(a)	(a)		

	Issued capital	Foreign currency translation reserves	Retained earnings	Total
Company (RMB'000)				
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 loss 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
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
		(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 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	
	HY2008	HY2007
	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	9.45	8.16
Weighted average number of ordinary shares in issue for basic earnings per share	234,000,000	228,841,530

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 2007	31 Mar 2007	30 Sept 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	101.01	94.21	47.17	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 during half year ended 30 September 2006 ("HY2007") and half year ended 30 September 2007 ("HY2008") are as follows:

	Group				% change
	HY2008		HY2007		
	RMB'000	%	RMB'000	%	
Explosives devices	39,232	40.1	32,478	43.6	20.8
Industrial fuse and initiating explosive devices	33,346	34.1	31,978	42.9	4.3
Industrial detonators	24,824	25.4	10,004	13.4	148.1
Others ⁽¹⁾	402	0.4	28	0.1	1335.7
	97,804	100.0	74,488	100.0	31.3

	Group				% change
	HY2008		HY2007		
	RMB'000	%	RMB'000	%	
<u>Revenue</u>					
Within PRC	64,978	66.4	56,687	76.1	14.6
<u>Outside PRC</u>					
Sales through export distributors ⁽²⁾	4,668	4.8	10,028	13.5	(53.5)
Australia	12,462	12.7	4,873	6.5	155.7
South Africa	11,293	11.6	554	0.7	1938.4
Others	4,403	4.5	2,346	3.2	87.7
	32,826	33.6	17,801	23.9	84.4
	97,804	100.0	74,488	100.0	31.3

Note :

(1) Others include sales of raw materials

(2) These were sales to export distributors in the PRC in which they export the products to their customers overseas.

HY2008 revenue increased by approximately RMB 23.3 million or 31.3% from HY2007's RMB 74.5 million to HY2008's RMB 97.8 million, mainly due to the increase in sales to Australia and South Africa but is partially offset by the decrease in revenue from sales through export distributors.

a) Sales within PRC

Sales within PRC increased by approximately RMB 8.3 million or 14.6%. 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 5.9 million or 298.4% and RMB 3.8 million or 40.1% respectively. There are slight marginal decreases in our PRC sales of boosters and detonating cords by approximately 11.9% and 0.7% respectively. The decrease is mainly due to increasing safety requirements set by the PRC authorities on our PRC customers, in particular the coal mines industry, which indirectly affected sales to these customers.

b) Sales through export distributors

Sales through export distributors decreased by RMB 5.4 million or 53.5%. The decrease is mainly due to the customers' shipping requirements for delivery of goods.

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)

c) **Sales to Australia**

Sales to Australia increased by approximately RMB 7.6 million or 155.7%. The increase is mainly due to the increase in demand by our Australia customers and the customers' shipping requirements for delivery of goods to Australia.

d) **South Africa**

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").

Gross profit margin

Gross profit margin improved by approximately 1.3 percentage points from 40.4% during HY2007 to 41.7% during HY2008. The marginal increase in our gross profit margin during HY2008 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

Distribution costs increased by approximately RMB 0.5 million or 14.7% is mainly due to an increase in sales revenue during HY2008 as compared to the previous corresponding period.

General and administrative expenses increased by approximately RMB 1.8 million or 22.5% 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 HY2007 relate to some fixed assets, with net book value of approximately RMB 98,000 being written-off.

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.

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 50.0% (HY2007: 43.6%), 40.7% (HY2007: 46.1%) and 9.3% (HY2007: 10.2%) of our total current assets as at 30 September 2007.

Trade receivables decreased by approximately RMB 1.1 million or 1.2% mainly due to the improved recoverability effort by the management. Other receivables increased by approximately RMB 5.7 million or 181.7% mainly due to the prepayment of certain machineries for our new production facilities.

Inventories increased by approximately RMB 10.2 million or 82.9% from HY2007's RMB 12.2 million to HY2008's RMB 22.4 million. The increase is mainly due to the increase in raw materials of approximately RMB 9.1 million, in particular the re-processed RDX that we purchased from CSRB were partially paid and received during the 6 months period under review.

As at 30 September 2007, our current liabilities comprise trade and other payables of approximately RMB 31.4 million, finance lease obligation of approximately RMB 68,000, provision for taxation of approximately RMB 3.1 million and bank overdraft of approximately RMB 1.3 million. Non-current finance lease obligation is approximately RMB 365,000.

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

Total finance lease obligation of approximately RMB 433,000 is in relation to a 7 years finance lease secured against a motor vehicle with net book value of approximately RMB 492,000 and bears effective interest rate of 6.61% per annum.

During the 6 months under review, we had obtained bank overdraft of approximately RMB 1.3 million for payment of corporate expenses.

Cash flow

For the 6 months period ended 30 September 2007, the Group has net cash generated from operating activities of approximately RMB 7.9 million as compared to a RMB 21.1 million cash outflows for the previous corresponding period. The net cash inflow from operating activities is mainly due to the improved debts recovery. The Group is actively putting up measures to further improve our recoverability.

For the 6 months period ended 30 September 2007, our net cash used in investing activities is approximately RMB 11.4 million mainly due to the commencement of construction of our two new production facilities. The Group has commenced the construction of a 3,000 tonnes boosters facility and a 60 million units detonators facility. The Group had previously disclosed in the Prospectus that we will be using our IPO proceeds for the purchase of machineries for the new boosters and detonators facilities. Due to a change in the regulatory environment, commercial explosives companies will need to construct and manage its own new production facilities. As such, Yinguang Technology has started to construct the two production facilities using its internally generated funds.

For the 6 months period ended 30 September 2007, our net cash used in financing activities is approximately RMB 6.2 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.

Safety precautions awareness / emergency exercise

In accordance to Shandong Commission of Science and Technology's Notice (the "Notice"), all commercial explosives manufacturers are required to suspend all manufacturing activities during the China's National day season, i.e. the period from 1st October 2007 to 7th October 2007 and also during the 17th meeting of the Communist Party of China, i.e. the period from 15th October 2007 to 21th October 2007. According to the Notice, all commercial explosives companies will hold their respective safety precautions awareness and emergency exercises during these periods. Our China operating subsidiary, Yinguang Technology, had adhered to the Notice and ceased operations during the periods mentioned above. During those periods, Yinguang Technology held several safety precautions awareness and emergency exercises to enhance the workers' safety awareness. Due to the above, the management expects our October 2007's revenue to be adversely affected.

Lease of properties from Shandong Yinguang Chemical Co., Ltd ("Yinguang Chemical")

As disclosed in our Company's Prospectus dated 5 April 2006, Yinguang Technology currently leases from Yinguang Chemical the properties at Fei County in PRC where our manufacturing facilities, offices and warehouses are located at a monthly rental of RMB 0.25 million. The lease is for a period of 3 years from 16 November 2004 to 15 November 2007. As there is no established rental market or statistics to determine the rental of similar properties, the rental amount was determined by dividing the market value of the properties over the remaining useful lives of the properties. The market value of the properties was determined in accordance with an independent valuation report on the properties. The leases were entered into on normal commercial terms and on arm's length.

The management had re-negotiated the lease of properties for another 3 year period from 16 November 2007 to 15 November 2010. Similar basis were used to determine the revised rental amount with an independent market valuation report performed. The revised monthly rental computed based on the independent valuation is approximately RMB 1.6 million. Upon negotiation between the relevant parties, it was agreed that the monthly rental will remain at RMB 0.25 million till 31 March 2008. With effect from 1 April 2008, monthly rental will be revised to approximately RMB 0.42 million and with effect from 1 April 2009, monthly rental will be revised to approximately RMB 0.67 million.

Boosters and Detonators facilities

As mentioned above under the 'Cash flow' section, the Group has 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 and we expect that these two new production facilities will bring positive contributions to our FY2009 results. After the commissioning of these 2 production facilities, Yinguang Technology will strengthen its boosters' leadership position in the PRC and will be the largest non-electric detonators producer in the PRC. 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.

Mergers and acquisitions

As disclosed in our FY2007 full year results announcement and in our Annual Report 2007, our management is currently in the process of assessing some commercial explosives companies for purposes of consolidation into our Group. Based on Mr Sun's years of experience in commercial explosives industry and barring any unforeseen circumstances, the Board of Directors believes Mr Sun will be able to consolidate and bring valuable acquisition targets to our Group. With the support from The Commission of Science, Technology and Industry for National Defense ("Commission"), the management has recently streamlined a few potential acquisition targets. We will seek approval, where necessary, from our Shareholders and the relevant authorities, as required by the relevant laws and regulations in due course.

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 half year 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
7 NOVEMBER 2007**