



Fabchem China Limited

Company registration number : 200413128G

The initial public offering of Fabchem China Limited was sponsored by HL Bank (the “Manager”). The Manager assumes no responsibility for the contents of this announcement.

Financial Statements for the Half year ended 30 September 2006 (“HY2007”)

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 2006 to 30 Sept 2006 RMB'000	1 Apr 2005 to 30 Sept 2005 RMB'000	
Revenue – Note (i)	74,488	51,457	44.8
Cost of sales	(44,399)	(27,771)	59.9
Gross profit	30,089	23,686	27.0
Financial income – Note (ii)	204	2	10100.0
Financial expense	(32)	(718)	(95.5)
Distribution costs	(3,581)	(2,150)	66.6
Administrative expenses	(7,919)	(3,177)	149.3
Other credits/(charges)	(98)	-	N.A.
Profit before income tax	18,663	17,643	5.8
Income tax expense	-	-	N.A.
Net profit attributable to shareholders	18,663	17,643	5.8
Note (i) – Revenue			
Sales of goods	74,460	51,180	45.5
Sales of raw materials and packaging materials	28	277	(89.9)
	74,488	51,457	44.8
Note (ii) – Financial income			
Interest income from bank deposits	203	2	10050.0
Foreign exchange adjustment gain	1	-	N.A.
	204	2	10100.0

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

Interest income from bank deposits	203	2	10050.0
Interest expense	(32)	(718)	(95.5)
Depreciation expenses	(908)	(447)	102.9
Fixed assets written-off	(98)	-	N.A.
Foreign exchange adjustment gain	1	-	N.A.

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 2006 RMB'000	31 March 2006 RMB'000	30 September 2006 RMB'000	31 March 2006 RMB'000
ASSETS				
Current assets :				
Cash and cash equivalents	85,589	38,465	1,380	218
Trade and other receivables (Note 1)	90,531	83,585	211	12,011
Inventories	20,066	10,953	-	-
Total current assets	196,186	133,003	1,591	12,229
Non-current assets :				
Investment in subsidiary	-	-	113,143	35,266
Property, plant and equipment	19,874	5,695	965	12
Total non-current assets	19,874	5,695	114,108	35,278
Total assets	216,060	138,698	115,699	47,507
LIABILITIES AND EQUITY				
Current liabilities :				
Trade and other payables (Note 2)	18,656	43,239	1,456	13,388
Due to subsidiary	-	-	111	-
Finance lease obligation	37	-	37	-
Total current liabilities	18,693	43,239	1,604	13,388
Non-Current liabilities :				
Finance lease obligation	457	-	457	-
Total non-current liabilities	457	-	457	-
Total liabilities	19,150	43,239	2,061	13,388
Capital and reserves :				
Issued capital	116,849	34,687	116,849	34,687
Reserves	80,061	60,772	(3,211)	(568)
Total equity	196,910	95,459	113,638	34,119
Total liabilities and equity	216,060	138,698	115,699	47,507
Note 1				
Trade receivables	86,155	70,377	-	-
Other receivables	4,376	13,208	211	12,011
Trade and other receivables	90,531	83,585	211	12,011
Note 2				
Trade payables and accruals	15,503	28,549	1,422	526
Other payables	3,153	14,690	34	12,862
Trade and other payables	18,656	43,239	1,456	13,388

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 2006		31 March 2006	
Secured	Unsecured	Secured	Unsecured
37	-	-	-

Amount repayable after one year

(RMB'000)

30 September 2006		31 March 2006	
Secured	Unsecured	Secured	Unsecured
457	-	-	-

Details of any collateral

As at 30 September 2006, 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 546,000, 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 2006 to 30 Sept 2006 RMB'000	1 Apr 2005 to 30 Sept 2005 RMB'000
Cash flows from operating activities		
Net profit attributable to shareholders	18,663	17,643
Adjustments for :		
Depreciation expense	908	447
Fixed assets written-off	98	-
Interest income	(203)	(2)
Interest expenses	32	718
Operating profit before working capital changes	19,498	18,806
Trade and other receivables	(6,946)	(9,202)
Inventories	(9,113)	(8,839)
Trade and other payables	(24,583)	2,050
Cash generated from operations	(21,144)	2,815
Income tax paid	-	-
Net cash (used in) from operating activities	(21,144)	2,815
Cash flows from investing activities		
Purchase of property, plant and equipment	(15,185)	(537)
Interest received	203	2
Net cash used in investing activities	(14,982)	(535)
Cash flows from financing activities		
Increase in short-term borrowings	-	20,000
Increase in finance lease obligation	494	
Proceeds from issuing shares	82,162	-
Interest paid	(32)	(718)
Net cash from financing activities	82,624	19,282
Net effect of exchange rate changes in consolidating foreign currency financial statements	626	15
Net increase in cash	47,124	21,577
Cash at beginning of the period	38,465	682
Cash at end of the period	85,589	22,259

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 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
Balance at 1 April 2005	10,000	4,602	80	26,699	41,381
Foreign currency translation difference	-	-	15	-	15
Net income recognised directly in equity	-	-	15	-	15
Net profit for the period	-	-	-	17,643	17,643
Total recognised income and expense for the period	-	-	15	17,643	17,658
Capitalisation by bonus issue	24,687	-	-	(24,687)	-
Appropriation for the period	-	1,885	-	(1,885)	-
Balance at 30 September 2005	34,687	6,487	95	17,770	59,039

(a) (a)

	Issued capital	Foreign currency translation reserves	Retained earnings	Total
Company (RMB'000)				
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
Balance at 1 April 2005	10,000	80	(47)	10,033
Foreign currency translation difference	-	15	-	15
Net income recognised directly in equity	-	15	-	15
Net profit for the period	-	-	24,812	24,812
Total recognised income and expense for the period	-	15	24,812	24,827
Capitalisation by bonus issue	24,687	-	(24,687)	-
Balance at 30 September 2005	34,687	95	78	34,860

(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).**

Not applicable.

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.**

Not applicable.

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	
	HY2007	HY2006
	RMB cents	RMB cents
Earnings per ordinary share for the year based on net profit attributable to shareholders :		
Based on weighted average number of ordinary shares in issue	8.16	10.08
Weighted average number of ordinary shares in issue for basic earnings per share	228,841,530	175,000,000

There is no dilution of shares as there are no shares under option.

7. **Net asset value (for the issuer and group) per ordinary share based on issued share capital of the issuer at the end of the :-**

- (a) **current financial period reported on; and**
 (b) **immediately preceding financial year.**

	Group		Company	
	30 Sept 2006	31 Mar 2006	30 Sept 2006	31 Mar 2006
	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	84.15	54.55	48.56	19.50
Number of shares use in calculating net asset value	234,000,000	175,000,000	234,000,000	175,000,000

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 2005 ("HY2006") and half year ended 30 September 2006 ("HY2007") are as follows:

	Group				% change
	HY2007		HY2006		
	RMB'000	%	RMB'000	%	
Explosives devices	32,478	43.6	24,511	47.6	32.5
Industrial fuse and initiating explosive devices	31,978	42.9	18,691	36.3	71.1
Industrial detonators	10,004	13.4	7,977	15.5	25.4
Others ⁽¹⁾	28	0.1	278	0.6	(89.9)
	74,488	100.0	51,457	100.0	44.8

	Group		% change
	HY2007 RMB'000	HY2006 RMB'000	
	Within PRC	56,687	
<u>Outside PRC</u>			
Sales through export distributors ⁽²⁾	10,582	3,413	210.0
Australia	4,873	17,207	(71.7)
Others	2,346	1,460	60.7
	17,801	22,080	(19.4)
	74,488	51,457	44.8

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.

HY2007 revenue increased by approximately RMB 23.0 million or 44.8% from HY2006's RMB 51.5 million to HY2007's RMB 74.5 million, mainly due to the increased in sales within PRC but is partially offset by the decrease in revenue from sales to Australia.

a) Sales within PRC

Sales within PRC increased by approximately RMB 27.3 million or 93.0%. The increase is mainly due to the general increase in demand of commercial explosives used for infrastructure, mining and hydroelectric construction projects in the PRC. In particular, our sales to Zhejiang, Shanxi and Anhui had increased significantly due to the increased in demand of commercial explosives used for infrastructure, mining and hydroelectric construction projects in those areas.

b) Sales to Australia

Sales to Australia decreased by approximately RMB 12.3 million or 71.7%. The decrease is mainly due to the increase in sales within PRC, as our production was scheduled to meet the increasing orders for our local PRC sales.

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 ("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 deteriorates by approximately 5.6 percentage points from 46.0% during HY2006 to 40.4% during HY2007. The decrease in our gross profit margin during HY2007 was mainly due to the reduced usage of alternative explosive chemicals, i.e. re-processed PETN, which we had purchased from China's State Reserves Bureau ("CSRB") at very competitive prices. During FY2006, we were able to use the re-processed PETN to replace PETN and RDX in the manufacturing of our explosive products, however as this raw material starts to run-out, we have reduced our usage of this raw material in our production process during HY2007. As such, the gross profit margin decreased by approximately 5.6 percentage points.

Financial income / (Financial Expenses)

Financial income increased by approximately RMB 202,000 and financial expense decreased by approximately RMB 686,000. The reason for the increase in financial income is mainly due to the interest income from banks arising from the net IPO proceeds received in April 2006 of approximately S\$16.5 million. As at 30 September 2005, our China subsidiary has a bank loan of RMB 20 million which was fully repaid in October 2005. The decrease in financial expense is mainly due to the absence of the aforementioned bank loan during HY2007.

Operating expenses

Distribution costs increased by approximately RMB 1.4 million or 66.6% mainly due to the increased in sales revenue during HY2007 and a sales discount of approximately RMB 567,000. The sales discount was given to certain PRC customers as an incentive for their increased purchase of our commercial explosives.

General and administrative expenses increased by approximately RMB 4.7 million or 149.3% mainly due to the increased in directors' fees, executive directors' profit sharing, staff costs and safety expenses accrued for our PRC operations. Accrual for directors' fees and executive directors' profit sharing increased as there were no directors' fees and executive directors' profit sharing expenses incurred before the Company was listed in April 2006. Staff costs increased mainly due to the increased in the number of employees for our new seismic charge manufacturing plant. According to a new PRC regulation issued by the State Administration of Work Safety for commercial explosives companies which came into effect during HY2007, our PRC subsidiary has to accrue for safety expenses as a provision for investment in safety improvement made to the manufacturing plant and environment. This new regulation is mainly to regulate the safety requirement for all commercial explosives companies.

Other charges relate to some fixed assets, with net book value of approximately RMB 98,000, being written-off during HY2007.

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)**

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. Yinguang Technology is exempted from paying the provincial income tax of 3.0% during its years of operations. The first profitable year of Yinguang Technology is 2005. Hence, the profits derived for HY2006 and HY2007 were exempted from paying income tax.

Balance sheet

Cash and cash equivalents, trade and other receivables and inventories represent approximately 43.6%, 46.1% and 10.2% of our total current assets as at 30 September 2006.

Trade receivables increased by approximately RMB 15.8 million or 22.4% mainly due to the increase in sales revenue for the 6 months period ended 30 September 2006 and certain export tax receivable from the authority. Other receivables decreased by approximately RMB 8.8 million or 66.9% mainly due to the deferred expenditure of approximately RMB 12.0 million as at 31 March 2006 which was set-off against the IPO proceeds in April 2006.

Inventories increased by approximately RMB 9.1 million or 83.2% from HY2006's RMB 11.0 million to HY2007's RMB 20.1 million. The increased is mainly due to the increase in raw materials balance as at 30 September 2006 as a result of the expectation of a tight production schedules for the months of October 2006 and November 2006.

As at 30 September 2006, our current liabilities comprise of trade and other payables approximates RMB 18.7 million and finance lease obligation approximates RMB 37,000. Non-current finance lease obligation approximates RMB 457,000.

Trade payables and accruals decreased by approximately RMB 13.0 million or 45.7% mainly due to the repayment of debts to suppliers. Other payables decreased by approximately RMB 11.5 million or 78.5% mainly due to the payment made for IPO expenses incurred during the Company's IPO process. The payment for IPO expenses will be a one-off event.

Total finance lease obligation of approximately RMB 494,000 is a 7 years finance lease secured against a motor vehicle with net book value of approximately RMB 546,000 and bears effective interest rate of 6.61% per annum.

Cash flow

For the 6 months period ended 30 September 2006, the Group has net cash used in operating activities of approximately RMB 21.1 million. The net cash deficit from operating activities is mainly due to the increase in inventories and the payment of trade and other payables.

The Group also obtained net IPO proceeds of approximately S\$16.5 million or RMB 82.2 million in April 2006.

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.**

Income tax implications in the People's Republic of China ("PRC")

As mentioned under the section on "Income tax expenses", our China operating subsidiary, 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, i.e. calendar years 2005 and 2006, and is granted a 50.0% relief from the state income tax of 30.0% for the following three years, i.e. calendar years 2007 to 2009. Yinguang Technology is exempted from paying the provincial income tax of 3.0% during its years of operations granted a 50.0% relief from the state income tax of 30.0% for the following three years.

In view of the above tax incentive, Yinguang Technology will be liable to a 15.0% tax, representing 50.0% of the state income tax of 30.0%, on its chargeable income for the last 3 months of FY2007, i.e. January 2007 to March 2007.

Application for purchase of re-processed RDX

Our China operating subsidiary, Yinguang Technology had applied for the purchase of re-processed RDX from China's State Reserves Bureau ("CSRB"). Similar to re-processed PETN, re-processed RDX is also a type of alternative explosive chemicals which we are expecting to purchase at a very competitive price. Yinguang Technology expects to receive the approval to purchase these raw materials in the next 12 months.

Application for export licence

Our China operating subsidiary, Yinguang Technology had applied for export licence to carry out its own export. Currently, Yinguang Technology exports its products to overseas customers through export agents. Once Yinguang Technology's export licence is approved, Yinguang Technology will be able to export its products directly to its customers overseas. This will bring numerous benefits to the Group, for example, the Group does not need to pay export agent fees to export agents and the Group will be able to strengthen our direct relationship with our overseas customers.

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 year ended.

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
6 NOVEMBER 2006**