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 Full year ended 31 March 2006

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.

Basis of preparation of the unaudited pro forma financial statements

The comparatives are prepared on a pro forma basis as the actual Group was in place only since 12 October 2004. The Pro forma Group structure is consistent with the group structure after the restructuring exercise as described in our prospectus dated 5 April 2006. The unaudited pro forma financial information have been prepared on the assumption that the current Pro forma Group structure has been in existence throughout the year, or since the respective dates of incorporation of the companies in the Pro forma Group, whichever is earlier.

The objectives of the unaudited pro forma financial statements is to show what the historical information might have been had the Pro forma Group structure existed throughout the financial period under review, or since the respective dates of incorporation, whichever is earlier, of the companies in the Pro forma Group. However, the unaudited pro forma financial statements are not necessarily indicative of the results of the operations or the related effects on the financial position that would have been attained had the Pro forma Group actually existed earlier.

All material intra-group transactions and balances have been eliminated in the preparation of the unaudited pro forma consolidated financial statements.

	Group		
	Actual FY2006 RMB'000	**Pro forma FY2005 RMB'000**	**Increase/ (Decrease) %**
Revenue – Note (i)	155,745	150,110	3.8
Cost of sales	(86,682)	(90,969)	(4.7)
Gross profit	69,063	59,141	16.8
Financial income	9	835	(98.9)
Financial expense	(937)	(5,179)	(81.9)
Distribution costs	(5,833)	(6,509)	(10.4)
Administrative expenses	(8,221)	(5,547)	48.2
Other (charges)/credits	-	1,864	N.A.
Profit before income tax	54,081	44,605	21.2
Income tax expense	-	(9,540)	N.A.
Net profit attributable to shareholders	54,081	35,065	54.2
Note (i)			
Sales of goods	155,079	149,390	3.8
Sales of packaging materials	666	720	(7.5)
	155,745	150,110	3.8

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

Interest income from bank deposits	9	835	(98.9)
Interest expense	(937)	(5,179)	(81.9)
Depreciation expenses	(934)	(859)	8.7
Loss on disposal of property, plant and equipment	-	(125)	N.A.
Government grants received	-	1,989	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	
	Actual 31 March 2006 RMB'000	**Pro forma 31 March 2005 RMB'000**	**Actual 31 March 2006 RMB'000**	**Actual 31 March 2005 RMB'000**
ASSETS				
Current assets :				
Cash and cash equivalents	38,465	70,862	218	160
Trade and other receivables	83,585	134,556	12,011	1,000
Inventories	10,953	17,734	-	-
Total current assets	**133,003**	**223,152**	**12,229**	**1,160**
Non-current assets :				
Investment in subsidiary	-	-	35,266	10,266
Property, plant and equipment	5,695	5,752	12	-
Total non-current assets	**5,695**	**5,752**	**35,278**	**10,266**
Total assets	**138,698**	**228,904**	**47,507**	**11,426**
LIABILITIES AND EQUITY				
Current liabilities :				
Short-term borrowings	-	121,600	-	-
Trade and other payables	43,239	52,527	13,388	1,393
Income tax payable	-	7,768	-	-
Total current liabilities	**43,239**	**181,895**	**13,388**	**1,393**
Capital and reserves :				
Issued capital	34,687	10,000	34,687	10,000
Reserves	60,772	37,009	(568)	33
Total equity	**95,459**	**47,009**	**34,119**	**10,033**
Total liabilities and equity	**138,698**	**228,904**	**47,507**	**11,426**

1(b)(ii) Aggregate amount of group's borrowings and debt securities

Amount repayable in one year or less, or on demand

(RMB'000)

Actual		Pro forma	
31 March 2006		**31 March 2005**	
Secured	**Unsecured**	**Secured**	**Unsecured**
-	-	121,600	-

Amount repayable after one year

(RMB'000)

Actual		Pro forma	
31 March 2006		**31 March 2005**	
Secured	**Unsecured**	**Secured**	**Unsecured**
-	-	-	-

Details of any collateral

As at 31 March 2005, the Pro forma secured short-term borrowings are interest bearing and mainly comprise of bank loans of RMB 24.9 million and bills payable to banks of RMB 96.7 million. The bank loans are covered by assets pledged by related parties or corporate guarantees by a non-related company. The bills payable to banks are covered by cash deposits of RMB 65.3 million.

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	
	Actual FY2006 RMB'000	**Pro forma FY2005 RMB'000**
Cash flows from operating activities		
Net profit attributable to shareholders	54,081	35,065
Adjustments for :		
Depreciation expense	934	859
Income tax expenses	-	9,540
Interest income	(9)	(835)
Interest expenses	937	5,179
Operating profit before working capital changes	55,943	49,808
Trade and other receivables	(33,466)	(55,098)
Inventories	(5,742)	6,338
Trade and other payables	22,856	11,208
Cash generated from operations	39,591	12,256
Income tax paid	-	(7,429)
Net cash from operating activities	**39,591**	**4,827**
Cash flows from investing activities		
Purchase of property, plant and equipment	(877)	(525)
Disposal of other investment	-	13
Interest received	9	835
Net cash (used in)/from investing activities	**(868)**	**323**
Cash flows from financing activities		
Increase in restricted bank deposits	-	(20,300)
Increase in short-term borrowings	-	45,600
Decrease in long-term borrowings	-	(23,200)
Proceeds from issuing shares	-	10,000
Interest paid	(937)	(5,179)
Dividend paid	-	(4,821)
Effect of acquisition of the restructuring agreement entered into	-	(2,682)
Net cash used in financing activities	**(937)**	**(582)**
Net effect of exchange rate changes in consolidating foreign currency financial statements	(3)	80
Net increase in cash	37,783	4,648
Cash at beginning of the year	682	914
Cash at end of the year	**38,465**	**5,562**
Analysis of the balances of cash and cash equivalents		
Cash and bank deposits	38,465	70,862
Less : Cash pledged	-	(65,300)
	38,465	**5,562**

The cash flow statement for FY2005 presented in this announcement is prepared on a pro forma basis while the cash flow statement for FY2006 is based on the actual financial figures of the Group. As such, the ending cash balance of FY2005 does not agree to the beginning cash balance of FY2006.

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
Actual Group (RMB'000)					
Balance at 1 April 2005	10,000	4,602	80	26,699	41,381
Bonus issue	24,687	-	-	(24,687)	-
Net profit for the year	-	-	-	54,081	54,081
Appropriation for the year	-	5,604	-	(5,604)	-
Foreign currency translation difference	-	-	(3)	-	(3)
Balance at 31 March 2006	34,687	10,206	77	50,489	95,459
Pro forma Group (RMB'000)					
Balance at 1 April 2004	10,000	3,124	-	6,243	19,367
Net profit for the year	-	-	-	35,065	35,065
Dividends paid	-	-	-	(4,821)	(4,821)
Appropriation for the year	-	5,260	-	(5,260)	-
Pro forma adjustment (Note 1)	-	-	-	(2,682)	(2,682)
Foreign currency translation difference	-	-	80	-	80
Balance at 31 March 2005	10,000	8,384	80	28,545	47,009

The FY2005 consolidated statement of changes in equity presented in this announcement is prepared in a pro forma basis while the FY2006 consolidated statement of changes in equity is based on the actual financial figures of the Group. As such, the ending balances as at 31 March 2005 does not agree to the opening balance as at 1 April 2005.

Note 1 – The adjustment represents the elimination of the Pro forma Group's profits and statutory reserve prior the November 2005, attributable to the previous shareholders, upon the completion of the Group's restructuring exercise in November 2005.

	Issued capital	Foreign currency translation reserves	Retained earnings	Total
Actual Company (RMB'000)				
Balance at 1 April 2005	10,000	80	(47)	10,033
Bonus issue	24,687	-	(24,687)	-
Net profit for the year	-	-	24,089	24,089
Foreign currency translation difference	-	(3)	-	(3)
Balance at 31 March 2006	34,687	77	(645)	34,119
Actual Company (RMB'000)				
Balance at date of incorporation	-*	-	-	-*
Issue of new shares	10,000	-	-	10,000
Loss for the year	-	-	(47)	(47)
Foreign currency translation difference	-	80	-	80
Balance at 31 March 2006	10,000	80	(47)	10,033

* - Issued share capital comprises 2 subscriber shares of $1 each.

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 15 June 2005, our Company capitalised $5 million from its retained earnings, being amounts from its retained earnings arising out of dividends received from Yinguang Technology, by way of a bonus issue of 5,000,000 fully-paid new ordinary shares of $1.00 each (the "Bonus Issue").

On 30 January 2006, the Companies (Amendment) Act 2005 came into effect. The Act was amended, among others, to abolish the concepts of par value, authorised share capital, share premium, capital redemption reserve and share discounts. Pursuant to such amendments, our Company had an issued and paid up capital of S$7,000,000, comprising 7,000,000 ordinary shares and has no authorised share capital.

At the Extraordinary General Meeting held on 23 February 2006, our Shareholders approved, inter alia, the following:-

(a) the sub-division of 7,000,000 ordinary shares with the issued and paid-up capital of $7,000,000 in the Company into 175,000,000 ordinary shares (the "Sub-division");

(b) the conversion of the Company into a public limited company and the change of its name to Fabchem China Limited;

(c) the adoption of the new Articles of Association of the Company;

(d) the issue of New Shares pursuant to the Invitation and subject to the terms and conditions of this Prospectus. The New Shares, when issued and fully paid, will rank pari passu in all respects with the existing issued and fully paid up Shares; and

(e) the authorisation to the Directors, pursuant to section 161 of the Companies Act and the Articles of Association, to allot and issue in addition to the New Shares, such further shares and/or convertible securities in the Company (whether by way of rights, bonus or otherwise) at any time and from time to time thereafter to such persons, and on such terms and conditions for such purposes as the Directors may in their absolute discretion deem fit provided always that the aggregate number of shares and/or convertible securities to be issued shall not exceed 50 per cent. of the issued share capital of the Company, or which the aggregate number of shares and/or convertible securities to be issued other than a pro-rata basis to existing shareholders of the Company shall not exceed 20 per cent. of the issued share capital of the Company. For this purpose, the percentage of the issued share capital is based on the Company's post-Invitation issued share capital, after adjusting for new shares arising from the conversion or exercise of any convertible securities, new shares arising from exercising share options or vesting of share awards outstanding or subsisting at the time of the passing of the resolution approving the mandate, provided the options or awards were granted in compliance with the Listing Manual and any subsequent consolidation or sub-division of shares. And unless revoked or varied by the Company in general meeting, such general mandate shall continue in force until the conclusion of the next Annual General Meeting following the passing of the general meeting; or the expiration of the period within which the next Annual General Meeting of the Company is required by law to be held, whichever is the earlier. But any authority may be previously revoked or varied by ordinary resolution of the shareholders in general meeting. The general mandate may be renewed, either unconditionally or subject to conditions.

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 same accounting policies and methods of computation adopted in the most recently audited financial statements for the financial year ended 31 March 2005 have been applied in the preparation for the financial statements for financial year ended 31 March 2006 except that the Group had adopted new/revised Financial Reporting Standards (FRS) which came into effect on 1 January 2005.

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.**

Effective from 1 January 2005, certain Singapore Financial Reporting Standards were adopted. Adoption of the standards has resulted in some changes in the detailed application of the accounting policies and some modifications to the financial statements presentation and these changes are summarised below:

Group	**After reclassification**	**Before reclassification**	**Change**
	RMB'000	**RMB'000**	**RMB'000**
FY2005 Pro forma Balance sheet:			
Trade and other receivables	134,556	-	134,556
Trade receivables	-	106,075	(106,075)
Other receivables and prepayments	-	28,481	(28,481)
Trade and other payables	52,527	-	52,527
Trade payables and accrued liabilities	-	26,936	(26,936)
Other payables	-	25,591	(25,591)
FY2005 Pro forma Income statement:			
Revenue	150,210	149,490	720
Other income	-	1,555	(1,555)
Financial income	835	-	835
FY2005 Pro forma Segmental reporting:			
Revenue (Within PRC)	75,318	74,598	720
Company			
FY2005 Pro forma Balance sheet:			
Trade and other receivables	1,000	-	1,000
Trade receivables	-	-	-
Other receivables and prepayments	-	1,000	(1,000)
Trade and other payables	1,393	-	1,393
Trade payables and accrued liabilities	-	30	(30)
Other payables	-	1,363	(1,363)

The above reclassifications have been made to the prior year's financial statements to enhance comparability with current year's financial statements. In view of the above changes, consequential reclassifications were made to the cash flow statement, including using the net profit figure instead of profit before income tax.

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	
	Actual FY2006	**Pro forma FY2005**
	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	30.90	20.04
Weighted average number of ordinary shares in issue for basic earnings per share	175,000,000	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	
	Actual 31 March 2006	**Pro forma 31 March 2005**	**Actual 31 March 2006**	**Actual 31 March 2005**
	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	54.55	2,350.45	19.50	501.65
Number of shares use in calculating net asset value	175,000,000	2,000,000	175,000,000	2,000,000

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.**

<u>Revenue</u>

Our products can be categorised mainly into (a) explosive devices such as boosters 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 in FY2005 and FY2006 are as follows:

	Group				
	Actual 31 March 2006		**Pro forma 31 March 2005**		**% change**
	RMB'000	**%**	**RMB'000**	**%**	**%**
Explosives devices	89,170	57.3	84,218	56.1	5.9
Industrial fuse and initiating explosive devices	47,393	30.4	59,219	39.5	(20.0)
Industrial detonators	18,516	11.9	1,400	0.9	1,222.6
Others [(1)]	666	0.4	5,273	3.5	(87.4)
	155,745	100.0	150,110	100.0	3.8

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

Full year revenue increased by approximately RMB 5.6 million or 3.8% from FY2005's RMB 150.1 million to FY2006's RMB 155.8 million, mainly due to increased in :-

a) sales of boosters within PRC
b) sales of boosters to Australia
c) sales of piston non-electric detonators within PRC

Increased in revenue is partially offset by the decrease in revenue due to decrease in :-

d) sales of boosters to United States of America ("USA")
e) sales of detonating cord within PRC

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

Sales of boosters within PRC increased by approximately RMB 4.8 million or 34.5%. The increase is mainly due to the increase in demand of explosives used for infrastructure and hydroelectric construction projects in the PRC and end users increasingly shifting to non-TNT explosives in recent years.

b) <u>Sales of boosters to Australia</u>

Sales of boosters to Australia increased by approximately RMB 36.5 million or 231.6%. The increased is mainly due to the continued outsourcing of boosters by our major customers in Australia, namely Orica Limited and Beston Australia Pty Ltd ("Beston"). In addition, we had also entered into an exclusive distributorship agreement with Beston which gives Beston the exclusive rights to distribute our boosters in Australia, New Zealand and South Africa. This had also strengthened our position in these regions.

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 of piston non-electric detonators within PRC

During FY2006, we commenced commercial production of our piston non-electric detonators and have achieved revenue of approximately RMB 15.0 million, representing approximately 9.7% of our total revenue for FY2006. Our piston non-electric detonator, which is the product of our research collaboration with the University of Science and Technology of the PRC, is safer to use, more resistant to abrasion, more environmental friendly and costs less than other non-electric detonators. We have been receiving favourable feedback from our customers during the trial phase of this new product. Currently, approximately 99% of these sales of piston non-electric detonators are to our PRC customers. The Company believes that the sales of piston non-electric detonators will increase further in the coming financial years.

d) Sales of boosters to United States of America ("USA")

Sales of boosters to USA decreased by approximately RMB 24.8 million or 75.2% mainly due to the temporary disruptions since the first half of FY2006 till December 2005. In our effort to shift the export agent for sales to USA to Beijing Aoxin Chemical Technology Development Co., Ltd ("Aoxin") which offers lower agent fees, our sales to USA was temporarily affected as Aoxin was in the process of rationalising its procedures for exports to USA. Hence Aoxin was temporarily unable to export into USA in HY2006. Furthermore, our exports to Orica USA and Beston USA are shipped to the Port of Berwick in Louisiana and Hurricane Katrina in late August 2005 had damaged the port, resulting in the postponement of our shipments to USA. We had resumed our sales to Orica USA in December 2005. In this connection, there were no export sales to USA during the first half of FY2006 and caused the full year sales to USA to decrease.

e) Sales of detonating cord within PRC

Sales of detonating cords within PRC decreased by approximately RMB 12.4 million or 25.1% mainly due to the increasing usage of piston non-electric detonators which are attached to non-electric tubes. These non-electric tubes, which are attached to the piston non-electric detonators, are considered in totality with the non-electric detonators and included in the revenue for piston non-electric detonators. As mentioned under (c) above, sales of piston non-electric detonators amounted to approximately RMB 15.0 million for FY2006.

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

Seasonality in revenue

	Group				
	Actual FY2006		**Pro forma FY2005**		**% change**
	RMB'000	**%**	**RMB'000**	**%**	**%**
Revenue for first half year	51,457	33.0	63,359	42.2	(18.8)
Revenue for second half year	104,288	67.0	86,751	57.8	20.2
	155,745	100.0	150,110	100.0	

During the second half of FY2006, revenue increased by approximately RMB 52.8 million or 102.7% from the first half of FY2006. The reasons for the increase are mainly due to the seasonal effect and the export sales to USA in the first half of FY2006.

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)**

Seasonality in Revenue (Cont'd)

Our revenue for the 2nd half of the financial year (October to March) is usually higher compared to the 1st half of the financial year (April to September) as it is the rainy season in the PRC around June to September every year which hinders our customers' mining, exploration and construction activities. Our PRC customers tend to increase business activities and hence purchase more commercial explosives in the non-rainy season.

As mentioned earlier, there were no sales to USA during the first half of FY2006. Export sales to USA was resumed in December 2005 and revenue of approximately RMB 8.2 million was registered during the second half of FY2006.

Gross profit margin

Gross profit margin increased by approximately by 4.9 percentage points from 39.4% in FY2005 to 44.3% in FY2006. The increase in our gross profit margin in FY2006 was due to the usage of alternative explosive chemicals which we had purchased from China's State Reserves Bureau ("CSRB") at very competitive prices. In the second half of FY2005, we secured the purchases of reprocessed PETN from CSRB. We were able to use the re-processed PETN to replace PETN and RDX in the manufacturing of our explosive products in FY2006 and hence, resulted in the improvement in our gross profit margins.

Finance income / (Finance Expenses)

Finance income decreased by approximately RMB 826,000 or 98.9% and finance expenses decreased by approximately RMB 4.2 million or 81.9%. The reason for the decrease is due to the absence of interest income earned from deposits pledged to the banks to secure short term loans as our borrowings have reduced significantly during FY2006.

Operating expenses

Operating expenses (excluding other credits and charges) increased by approximately RMB 2.0 million or 16.6% from FY2005's RMB 12.1 million to FY2006's RMB 14.1 million. The increased in operating expenses is mainly due to the increased in general and administrative expenses by approximately RMB 2.7 million, and partially offset by the decrease in distribution costs of approximately RMB 0.7 million.

Increase in general and administrative expenses is mainly due to the increased in corporate expenses and the increased in payroll and related costs. During FY2006, corporate expenses increased by approximately RMB 863,000 due to expenses relating to payroll, directors' fees and accrual of printing costs for annual report. Payroll and related costs increase as we have adjusted the remuneration of the management and administrative staff after taking into consideration their respective duties and responsibilities.

Decrease in distribution costs is mainly due to lower export agent fees and the absence of revenue-related taxes. Lower export agent fees were in line with the decreased in export sales to USA and export distributors during FY2006. During FY2006, our sales were not subject to revenue-related taxes as our operations are carried out under Shandong Yinguang Technology Co., Ltd. which is an FIE.

Other (charges)/credits

During FY2005, we received a cash subsidy, of approximately RMB 1.9 million, from the Fei County government for our interest costs incurred on bank loans to finance the expansion of our manufacturing facilities.

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 from the last 2 months of FY2005, that is, 1 February to 31 March 2005, were not subjected to any income tax. This resulted in the effective tax rate in FY2005 to be lower than the standard income tax rate of 33.0%. In view of the above, no provision for income tax had been made for FY2006.

Cash flow

For FY2006, the Group has a strong operational cash inflow of approximately RMB 39.6 million, which is used to finance its capital expenditure in the normal course of our operations and to repay the finance expenses. The Group has a strong ending cash balance of approximately RMB 38.5 million, which is an increase of approximately RMB 37.8 million from the beginning balance of RMB 0.7 million. The increase in cash balances is mainly due to the improved debtors' recoverability during the current financial year.

Balance sheet

Cash and cash equivalents, trade and other receivables and inventories represent approximately 28.9%, 62.9% and 8.2% of our total current assets for FY2006. This is relatively consistent with FY2005.

Trade and other receivables decreased by approximately RMB 51.0 million or 37.9% from FY2005's RMB 134.6 million to FY2006's RMB 83.6 million. During FY2006, we had put in place measures to improve our trade debtors' turnover days, such as a stricter credit management policy on new and existing customers, and our sales personnel are rewarded by way of additional commissions for collecting the trade debts within the credit terms extended to our customers.

Inventories decreased by approximately RMB 6.8 million or 38.2% from FY2005's RMB 17.7 million to FY2006's RMB 10.9 million. The decreased is mainly due to the decrease in raw materials balance as at 31 March 2006. Raw materials balance decreased by approximately 51% due to the usage of re-processed PETN, that was stored as at 31 March 2005, during FY2006, and due to the tight production schedules for the months of February 2006 and March 2006. The decrease in raw materials balance will not have any impact on our subsequent production and the raw materials balance was replenished in April 2006. Finished goods balance is generally maintained to satisfy 1 to 2 months sales and relatively consistent over the two financial years.

As at 31 March 2006, our current liabilities only comprise of trade and other payables of RMB 43.2 million. In June 2005, we obtained a short-term bank loan of RMB 20 million but repaid in October 2005. As mentioned under the section on income tax expenses above, no provision for income tax was necessary for FY2006, thus there was no income tax payable as at 31 March 2006.

Trade and other payables decreased by approximately RMB 9.3 million or 17.7% from FY2005's RMB 52.5 million to FY2006's RMB 43.2 million The higher trade and other payables balance for FY2005 was due to our purchase of raw materials from CSRB, as CSRB requires us to make advance payments for the purchase of raw materials.

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

The financial results of the Group for the financial year ended 31 March 2006 is in-line with the prospects information disclosed under the section entitled "Prospects and Future Plans" in the prospectus of the Company dated 5 April 2006, which states that barring unforeseen circumstances, our Directors expect that the demand for our boosters and detonators will increase as boosters and detonators are devices required to increase the efficiency of an explosion that uses non-TNT explosives.

As mentioned under the prospectus of the Company dated 5 April 2006, end users in the PRC are expected to continue to shift from using TNT explosives to environmentally-friendly non-TNT explosives in line with the "5-year Commercial Explosives Industry Plan" stipulated by the Commission in 2001 to completely use environmentally friendly non-TNT explosives in commercial explosives in the PRC by 2010.

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.

Admission to the Official List of Singapore Exchange Securities Trading Limited (the "SGX-ST")

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 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.

Increase in the registered capital of wholly-owned subsidiary

On 21 April 2006, the Company remitted S$13.08 million to our wholly-owned subsidiary, Shandong Yinguang Technology Co., Ltd ("YG Tech"), to increase YG Tech's registered capital from RMB 35 million to RMB 100 million. The investment was funded through the net IPO proceeds of the Company and was completed on 26 April 2006.

On 31 May 2006, the Company remitted S$2.4 million to our wholly-owned subsidiary, YG Tech, to increase YG Tech's registered capital from RMB 100 million to RMB 112 million. The investment was funded through the net IPO proceeds of the Company and was completed on 5 June 2006.

Acquisition of manufacturing facilities for the production of Seismic Charge

On 22 May 2006, YG Tech entered into a sales and purchase agreement with a third party for the acquisition of manufacturing facilities for the production of our new product, seismic charges, to enhance our competitiveness and to meet the preferences and requirements of our customers and the market. The purchase consideration of approximately RMB 12.2 million or approximately S$2.4 million was valued by an independent valuer, Shandong Dayu Certified Public Accountant Office, in accordance with the accounting standards and legal requirements of the People's Republic of China. The entire purchase consideration was funded by the net IPO proceeds.

We commenced commercial productions and sales of our new product, seismic charge, during the same month. For more information on this transaction, please refer to our announcement on 'Use of IPO Proceeds' on 30 May 2006. The Directors of the Company are of the view that this acquisition will have a positive impact on the revenue of the Group for the financial year ending 31 March 2007.

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)

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.

Agreement between PRC and Australia and industry outlook in Australia

During the recent state visit by Chinese Premier Mr. Wen Jiabao to Australia (the first by a Chinese premier in 18 years) in April 2006, China and Australia signed an agreement this week, which will permit the export of Australian uranium to China. Mr. Wen Jiabao said China and Australia are expected to produce a Free-Trade Agreement ("FTA") in two years. The FTA is expected to encourage mining and exploration joint ventures between the two countries. Australian Resources and Industry Minister Ian Macfarlane also mentioned that by 2010, Australia hopes to export billions of pounds of uranium from its mines to fuel China's nuclear power plant construction boom. China hopes to build 30 nuclear reactors by 2020 to fuel power demand. Predicted uranium consumption for China is estimated at 20,000 tons per year. It is hoped that nuclear power will enable to reduce China's coal dependency by half.

According to statistics issued by the Australian Bureau of Agriculture and Resource Economics, the mining and energy related activities in Australia are expected to increase and it was reported that there are 90 advanced (i.e. committed or under construction) and 166 less advanced (i.e. undergoing feasibility study or pending final decision to proceed) minerals and energy projects at the end of April 2006. The total capital expenditure was estimated at A$131.1 billion for these advanced and less advanced projects and are expected to be fully operationally by 2009 and 2015, respectively.

With the above developments in Australia, the Directors are of the view that the mining activities in Australia will increase significantly and thus may increase the usage of our products in Australia.

As at the date of this announcement, apart from the above disclosures, the Directors of the Company are not aware of any item or event of a material or unusual nature that had occurred between the date of the report and the date of this announcement, which would materially affect the operations of the Group in the next reporting period and the next 12 months.

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.

PART I I – ADDITIONAL INFORMATION REQUIRED FOR FULL YEAR ANNOUNCEMENT

13. Segmented revenue and results for business or geographical segments (of the group) in the form presented in the issuer's most recently audited annual financial statements, with comparative information for the immediately preceding year.

The Group has one primary segment which is the sale of commercial explosives products.

Revenue by geographical segments are based on the location of the customers regardless of where the goods are produced. The assets and capital expenditure are based on the location of those assets.

	Actual FY2006 RMB'000	**Pro forma FY2005 RMB'000**
Revenue		
Within PRC	76,146	75,318
Outside PRC		
Sales through export distributors *	14,427	21,379
United States of America	8,197	33,012
Australia	52,566	16,369
Others	4,409	4,032
	79,599	74,792
	155,745	**150,110**

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

Carrying amount of segment assets		
Within PRC	126,457	227,744
Singapore	12,241	1,160
	138,698	**228,904**
Capital expenditure		
Within PRC	859	525
Singapore	18	-
	877	**525**

14. In the review of performance, the factors leading to any material changes in contribution to turnover and earnings by the business or geographical segments.

From FY2005 to FY2006, PRC revenue increased slightly by approximately RMB 828,000 or 1.1% and export revenue increased by approximately RMB 4,807,000 or 6.4% from FY2005 to FY2006. PRC and export revenue represents approximately 48.9% (FY2005: 50.2%) and 51.1% (FY2005: 49.8%) of the total revenue for FY2006.

Revenue from United States of America ("USA") decreased by approximately RMB 24.8 million or 75.2% mainly due to the temporary disruptions since the first half of FY2006 till December 2005. In our effort to shift the export agent for sales to USA to Beijing Aoxin Chemical Technology Development Co., Ltd ("Aoxin") which offers lower agent fees, our sales to USA was temporarily affected as Aoxin was in the process of rationalising its procedures for exports to USA. Hence Aoxin was temporarily unable to export into USA in HY2006. Furthermore, our exports to Orica USA and Beston USA are shipped to the Port of Berwick in Louisiana and Hurricane Katrina in late August 2005 had damaged the port, resulting in the postponement of our shipments to USA. We had resumed our sales to Orica USA in December 2005.

Revenue from Australia increased significantly by approximately RMB 36.2 million or 221.% mainly due to the continued outsourcing of boosters by our major customers in Australia, namely Orica Limited and Beston Australia Pty Ltd ("Beston"). In addition, we had also entered into an exclusive distributorship agreement with Beston which gives Beston the exclusive rights to distribute our boosters in Australia, New Zealand and South Africa. This had also strengthened our position in these regions.

15. A breakdown of sales.

	Group		
	Actual FY2006	**Pro forma FY2005**	**Increase/ (Decrease)**
	RMB'000	**RMB'000**	**%**
Revenue reported for first half year	51,180	62,783	(18.5)
Reclassifications *	277	576	(51.9)
Revenue adjusted for first half year	51,457	63,359	(18.8)
Operating profit after tax reported for first half	17,643	10,881	62.1
Revenue reported for second half year	103,899	86,607	20.0
Reclassifications *	389	144	170.1
Revenue adjusted for second half year	104,288	86,751	20.2
Operating profit after reported for second half year	37,037	24,184	53.1

* Reclassifications as mentioned under Note 5 above.

16. A breakdown of the total annual dividend (in dollar value) for the issuer's latest full year and its previous full year.

Not applicable.

17. Interested Person Transaction

Name of interested person	Nature	Aggregate value of all interested person transaction (excluding transactions less than $100,000 and transactions conducted under a shareholders' mandate pursuant to Rule 920)		Aggregate value of all interested person transactions conducted under a shareholders' mandate pursuant to Rule 920 (excluding transactions less than $100,000)	
		Actual FY2006	Actual FY2005	Actual FY2006	Actual FY2005
		RMB'000	RMB'000	RMB'000	RMB'000
Shandong Yinguang Chemical Industry Co., Ltd	Rental of manufacturing facilities, offices and warehouses	3,000	1,250	-	-
	Purchase of inventories	12,195	27,890	-	-
	Purchase of plant and equipments	-	6,048	-	-
	Profit transfer pursuant to the Restructuring Exercise *	-	15,403	-	-
Feixian Yinguang Substances Development Co., Ltd	Purchase of packaging materials	8,173	-	-	-
Feixian Yinguang Transport Co., Ltd	Payment of transportation charges	2,466	39	-	-

* Our subsidiary acquired the business from Shandong Yinguang Chemical Industry Co., Ltd ("Yinguang Chemical") pursuant to the restructuring exercise in connection with the proposed listing of the Company on the Singapore Exchange Securities Trading Limited ("Restructuring Exercise"). In accordance with the terms of the acquisition, our subsidiary is entitled to, *inter alia*, the net profits of Yinguang Chemical from 1 November 2004 which amounted to RMB 15.403 million. This was an one-off transaction as a result of the Restructuring Exercise and will not be undertaken in the future. For more information on the Restructuring Exercise, please refer to our Company's Prospectus dated 5 April 2006.

18. Transactions with Beijing Aoxin Chemical Technology Development Co., Ltd ("Aoxin")

Aoxin is connected to our Directors and/or Controlling Shareholders which do not fall within the ambit of the definition of an "Interested Person" under Chapter 9 of the Listing Manual. We may continue with such transactions where the terms relating thereto are in the interest of, or beneficial to, our Group.

Aoxin is an import and export trading company. It is also one of the few export companies in the PRC with the relevant licence to export commercial explosives. Shandong Yinsheng Investments Co., Ltd ("Yinsheng Investments"), who is 54.3% owned by our executive officer, Sun Qiang, has a 22.2% interest in Aoxin. Our Managing Director is also a non-executive director of Aoxin.

We sell our commercial explosives to Aoxin which in turn sells to its customers overseas. In addition, we also engage the services of Aoxin to export our products to our overseas customers as we do not have the relevant licence to export commercial explosives. We negotiate the terms of sales and sign the sales contracts with our overseas customers. The transactions were entered into on normal commercial terms and on arm's length basis.

	Actual	**Actual**
	FY2006	**FY2005**
Nature	**RMB'000**	**RMB'000**
Sales of commercial explosives to Aoxin	11,910	-
Sales of commercial explosives to our overseas customers through Aoxin	42,536	14,684

BY ORDER OF THE BOARD
SUN BOWEN
MANAGING DIRECTOR
21 JUNE 2006