



Fabchem China Limited

Company registration number : 200413128G

Financial Statements for the 1st Quarter ended 30 June 2010 (“1Q2011”)

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

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

	Group		Increase/ (Decrease) %
	3 months ended 30 June 2010 RMB'000	3 months ended 30 June 2009 RMB'000	
Revenue	103,300	83,164	24.2
Cost of sales	(69,985)	(47,862)	46.2
Gross profit	33,315	35,302	(5.6)
<u>Other Items of Income</u>			
Interest income	164	58	182.8
Other credits – Note (i)	158	79	100.0
<u>Other Items of Expense</u>			
Distribution costs	(5,429)	(3,747)	44.9
Administrative expenses	(9,890)	(7,672)	28.9
Finance costs	(758)	(298)	154.4
Other charges – Note (ii)	-	(687)	N.M.
Profit before income tax	17,560	23,035	(23.8)
Income tax expense	(5,007)	(3,429)	46.0
Net profit attributable to shareholders	12,553	19,606	(36.0)

Note (i) – Other Credits

Gain on disposal of property, plant and equipment	-	79	N.M.
Foreign exchange adjustment gain	1	-	N.M.
Write back of allowance for impairment on trade receivables	157	-	N.M.
	158	79	100.0

Note (ii) – Other Charges

Foreign exchange adjustment loss	-	(687)	N.M.
	-	(687)	N.M.

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

Amortisation expenses	(424)	(262)	61.8
Depreciation expenses	(3,435)	(2,427)	41.5
Foreign exchange adjustment gain/(loss)	1	(687)	(100.1)
Gain on disposal of property, plant and equipment	-	79	N.M.
Interest expense	(758)	(298)	154.4
Interest income from bank deposits	164	58	182.8
Write back of allowance for impairment on trade receivables	157	-	N.M.

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

	Group		Increase/ (Decrease)
	3 months ended 30 June 2010 RMB'000	3 months ended 30 June 2009 RMB'000	
Net profit attributable to shareholders	12,553	19,606	(36.0)
Foreign currency translation difference	(47)	552	(108.5)
Total comprehensive income for the period	<u>12,506</u>	<u>20,158</u>	(38.0)

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 June 2010 RMB'000	31 March 2010 RMB'000	30 June 2010 RMB'000	31 March 2010 RMB'000
ASSETS				
Non-current assets :				
Property, plant and equipment	183,743	185,840	326	343
Intangible assets	7,188	7,403	-	-
Other assets, non-current	54,052	54,261	-	-
Deferred tax assets	3,627	3,627	-	-
Investment in subsidiary	-	-	109,784	110,185
Total non-current assets	248,610	251,131	110,110	110,528
Current assets :				
Inventories	37,893	47,763	-	-
Trade and other receivables (Note 1)	118,202	99,124	25,195	26,323
Other assets , current	21,671	27,653	74	101
Cash and cash equivalents	116,410	107,255	140	285
Total current assets	294,176	281,795	25,409	26,709
Total assets	542,786	532,926	135,519	137,237
EQUITY AND LIABILITIES				
Capital and reserves :				
Share capital	116,849	116,849	116,849	116,849
Retained earnings	216,936	205,844	15,496	18,139
Other reserves	35,225	33,811	(2,955)	(2,506)
Total equity	369,010	356,504	129,390	132,482
Non-Current liabilities :				
Deferred tax liabilities	5,802	5,910	-	-
Other financial liabilities	151	171	151	171
Total non-current liabilities	5,953	6,081	151	171
Current liabilities :				
Income tax payable	1,587	7	-	-
Trade and other payables (Note 2)	113,569	123,257	5,902	4,509
Other financial liabilities, current	48,389	43,681	76	75
Other liabilities	4,278	3,396	-	-
Total current liabilities	167,823	170,341	5,978	4,584
Total liabilities	173,776	176,422	6,129	4,755
Total liabilities and equity	542,786	532,926	135,519	137,237
Note 1				
Trade receivables	117,247	98,040	-	-
Amount receivable from subsidiary	-	-	25,195	26,323
Other receivables	955	1,084	-	-
Total trade and other receivables	118,202	99,124	25,195	26,323
Note 2				
Trade payables and accruals	73,658	71,544	5,552	4,412
Other payables	39,911	51,713	350	97
Total trade and other payables	113,569	123,257	5,902	4,509

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 June 2010		31 March 2010	
Secured	Unsecured	Secured	Unsecured
15,076	33,313	3,075	40,606

Amount repayable after one year

(RMB'000)

30 June 2010		31 March 2010	
Secured	Unsecured	Secured	Unsecured
151	-	171	-

Details of any collateral

As at 30 June 2010, the Group has secured borrowings comprising a 7-year finance lease of approximately RMB 227,000 for the purchase of a motor vehicle and aggregate secured short-term bank loans of RMB 15 million. Unsecured borrowings relates to a loan from a third party of RMB 21.3 million and aggregate unsecured short-term bank loans of RMB 12 million.

The finance lease is secured against the motor vehicle with net book value of approximately RMB 320,000, and bears effective interest rate of 6.61% per annum.

Secured short-term bank loans are secured using Hebei Yinguang Chemical Co., Ltd ("Hebei Yinguang")'s land and buildings with net book value of approximately RMB 17.8 million. The secured short-term bank loans' interest rate ranged between 6.1065% to 6.903% per annum.

Unsecured borrowing of RMB 33.3 million relates to a loan from Linxi County Nitrogenous Fertilizer Co., Ltd of RMB 21.3 million and short-term bank loans of RMB 12.0 million. Portion of the unsecured loan from Linxi County Nitrogenous Fertilizer Co., Ltd has an interest rate of 12% per annum. Unsecured short-term bank loans of RMB 12 million are guaranteed by corporate guarantee of Shandong Yinguang Chemical Group Co., Ltd, the former holding company of Hebei Yinguang, and guarantee by Ministry of Finance of Linxi County. The unsecured short-term bank loans' interest rates range between 5.841% and 12.654% 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	
	3 months ended 30 June 2010 RMB'000	3 months ended 30 June 2009 RMB'000
Cash flows from operating activities		
Profit before income tax	17,560	23,035
Adjustments for :		
Amortisation expenses	424	262
Depreciation expense	3,435	2,427
Gain on disposal of property, plant and equipment	-	79
Interest income	(164)	(58)
Interest expenses	758	298
Write back of allowance for impairment on trade receivables	(157)	-
Net effect of exchange rate changes in translation of financial statements of Parent	(46)	537
Operating profit before working capital changes	21,810	26,580
Inventories	9,870	(3,841)
Trade and other receivables	(18,554)	(6,169)
Other assets	5,982	(1,062)
Trade and other payables	(9,688)	(33,120)
Other liabilities	882	56
Cash generated from operations	10,302	(17,556)
Income tax paid	(3,902)	(3,717)
Net cash from / (used in) operating activities	6,400	(21,273)
Cash flows from investing activities		
Proceeds from sale of property, plant and equipment	-	384
Purchase of property, plant and equipment	(1,339)	(4,560)
Interest received	164	58
Net cash used in investing activities	(1,175)	(4,118)
Cash flows from financing activities		
Increase / (Repayment) of short-term bank loan	6,000	(3,000)
Repayment of finance lease obligation	(19)	(2)
Repayment of third party loan	(1,293)	(829)
Interest paid	(758)	(298)
Net cash from / (used in) financing activities	3,930	(4,129)
Net increase / (decrease) in cash	9,155	(29,520)
Cash at beginning of the period	107,255	112,621
Cash at end of the period	116,410	83,101

1(d)(i) A statement (for the issuer and group) showing either (i) all changes in equity or (ii) changes in equity other than those arising from capitalisation issues and distributions to shareholders, together with a comparative statement for the corresponding period of the immediately preceding financial year.

	Share capital	Statutory reserves	Foreign currency translation reserves	Retained earnings	Total
Group (RMB'000)					
Balance at 1 April 2010	116,849	33,360	451	205,844	356,504
Appropriation for the period	-	1,461	-	(1,461)	-
Total comprehensive income for the period	-	-	(47)	12,553	12,506
Balance at 30 June 2010	<u>116,849</u>	<u>34,821</u>	<u>404</u>	<u>216,936</u>	<u>369,010</u>
Balance at 1 April 2009	116,849	28,132	(375)	163,859	308,465
Appropriation for the period	-	1,817	-	(1,817)	-
Total comprehensive income for the period	-	-	552	19,606	20,158
Balance at 30 June 2009	<u>116,849</u>	<u>29,949</u>	<u>177</u>	<u>181,648</u>	<u>328,623</u>

	Share capital	Foreign currency translation reserves	Retained earnings	Total
Company (RMB'000)				
Balance at 1 April 2010	116,849	(2,506)	18,139	132,482
Total comprehensive income/(loss) for the period	-	(449)	(2,643)	(3,092)
Balance at 30 June 2010	<u>116,849</u>	<u>(2,955)</u>	<u>15,496</u>	<u>129,390</u>
Balance at 1 April 2009	116,849	(12,342)	8,494	113,001
Total comprehensive income/(loss) for the period	-	5,501	(3,435)	2,066
Balance at 30 June 2009	<u>116,849</u>	<u>(6,841)</u>	<u>5,059</u>	<u>115,067</u>

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 well as the number of shares held as treasury shares, if any, against the total number of issued shares excluding treasury shares of the issuer, as at the end of the current financial period reported on and as at the end of the corresponding period of the immediately preceding financial year.

Not applicable.

1(d)(iii) To show the total number of issued shares excluding treasury shares as at the end of the current financial period and as at the end of the immediately preceding year.

	Group	
	30 June 2010	31 March 2010
Total number of issued shares	234,000,000	234,000,000

1(d)(iv) A statement showing all sales, transfers, disposal, cancellation and/or use of treasury shares as at the end of the current financial period reported on.

There is no sale, transfer, disposal, cancellation and/or use of treasury shares as at the end of the current financial period reported on.

2. Whether the figures have been audited or reviewed and in accordance with which auditing standard or practice.

The figures have not been audited nor reviewed by the auditors.

3. Where the figures have been audited or reviewed, the auditors' report (including any qualifications or emphasis of a matter).

The figures have not been audited nor reviewed by the auditors.

4. Whether the same accounting policies and methods of computation as in the issuer's most recently audited annual financial statements have been applied.

The Group has applied the same accounting policies and methods of computation as in the most recently audited financial statements.

5. If there are any changes in the accounting policies and methods of computation, including any required by an accounting standard, what has changed, as well as the reasons for, and the effect of, the change.

There are no other material changes in the accounting policies and methods of computation.

6. **Earnings per ordinary share of the group for the current financial period reported on and the corresponding period of the immediately preceding financial year, after deducting any provision for preference dividends.**

	Group	
	3 months ended 30 June 2010	3 months ended 30 June 2009
	RMB cents	RMB cents
Earnings per ordinary share for the year based on net profit attributable to shareholders :		
Based on weighted average number of ordinary shares in issue	5.36	8.38
Weighted average number of ordinary shares in issue for basic earnings per share	234,000,000	234,000,000

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 the total number of issued shares excluding treasury shares of the issuer at the end of the :-**
 (a) **current financial period reported on; and**
 (b) **immediately preceding financial year.**

	Group		Company	
	30 June 2010	31 March 2010	30 June 2010	31 March 2010
	RMB cents	RMB cents	RMB cents	RMB cents
Net asset value per ordinary share based on the issued shares at the end of the financial year	157.70	152.35	55.29	56.62
Number of issued shares use 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

Revenue for the 3-month period ended 30 June 2010 ("1Q2011") increased by approximately RMB 20.1 million or 24.2%, from RMB 83.2 million of the 3-month period ended 30 June 2009 ("1Q2010") to RMB 103.3 million in 1Q2011. The increase was mainly due to the general increase in revenue across key product and market segments.

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; (c) industrial detonators such as non-electric detonators and piston non-electric detonators; and (d) ammonium nitrate.

The breakdown and comparison of our revenue by the above product types and geographical segments between 1Q2011 and 1Q2010 are as follows:

	Group				% change
	3 months ended 30 June 2010 ("1Q2011")		3 months ended 30 June 2009 ("1Q2010")		
	RMB'000	%	RMB'000	%	
Explosive devices	25,915	25.1	18,376	22.1	41.0
Industrial fuse and initiating explosive devices	31,821	30.8	30,616	36.8	3.9
Industrial detonators	20,295	19.7	18,301	22.0	10.9
Ammonium Nitrate	25,151	24.3	15,777	19.0	59.4
Others ⁽¹⁾	118	0.1	94	0.1	25.5
	103,300	100.0	83,164	100.0	24.2

	Group				% change
	3 months ended 30 June 2010 ("1Q2011")		3 months ended 30 June 2009 ("1Q2010")		
	RMB'000	%	RMB'000	%	
Within PRC	86,800	84.0	73,157	88.0	18.6
<u>Outside PRC</u>					
Sales through export distributors ⁽²⁾	-	-	1,120	1.3	(100.0)
Australia	12,456	12.1	7,208	8.7	72.8
Others	4,044	3.9	1,679	2.0	140.9
	16,500	16.0	10,007	12.0	64.9
	103,300	100.0	83,164	100.0	24.2

Note :

- (1) Others include sales of raw materials and packaging materials.
(2) These were sales to export distributors in the PRC in which they export the products to their customers overseas.

a) Sales within PRC

Sales within PRC increased by approximately RMB 13.6 million or 18.6% to RMB 86.8 million in 1Q2011, from RMB 73.2 million in the previous year. The increase was mainly due to the increased in PRC sales of piston non-electric detonators, non-electric tubes and detonating cords and the increase in sales of ammonium nitrate.

Our PRC sales of piston non-electric detonators, non-electric tubes and detonating cords increased by approximately RMB 2.0 million, RMB 1.2 million and RMB 1.1 million respectively.

Sales of ammonium nitrate increased by RMB 9.4 million to 1Q2011's RMB 25.2 million. The increase was mainly due to the increase in sales from the new 40,000 tonnes plant that commenced production during last financial year.

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)

- b) Sales through export distributors,

There were no sales through export distributors during 1Q2011 as our subsidiary, Shandong Yinguang Technology Co., Ltd ("Yinguang Technology") undertakes to export directly to its overseas customers.

- c) Sales to Australia

Sales to Australia increased by approximately RMB 5.2 million. The fluctuations in sales to Australia were mainly due to the different shipping requirements for delivery of goods.

During 1Q2011, Yinguang Technology also made a maiden sale to Dyno Nobel in Australia of approximately RMB 751,000.

Through the acquisition of Dyno Nobel in 2008, Incitec Pivot owns a 29.9% strategic stake in our Group. Incitec Pivot is an Australia-listed leading global manufacturer of nitrogen-based chemicals.

These products were sold to Dyno Nobel for trial use by its customers.

- d) Sales to other countries

The fluctuations in sales revenue were mainly due to the different shipping requirements for delivery of goods.

All local PRC sales contracts and export applications sought by export agents have been approved by the Ministry of Industry and Information Technology, Department of Work Safety ("MIIT").

Gross profit margin

Gross profit margin for the Group decreased by approximately 10.1 percentage points, from 42.4% during 1Q2010 to 32.3% during 1Q2011. The decrease is mainly due to rising raw materials prices and the higher proportion of lower-margin products (explosive devices and ammonium nitrate) in sales mix.

Our main raw material prices increased by approximately 20% during 1Q2011 as compared to 1Q2010. This has resulted in the decrease in gross profit margin of our product range. Sales mix also changed during 1Q2011 as there were a higher proportion of lower-margin products (explosive devices and ammonium nitrate) in sales mix as compared to higher-margin products such as industrial fuse and initiating explosive devices and industrial detonators.

Interest income / (Finance costs)

Interest income increased by approximately RMB 106,000, mainly due to the increase in bank deposits. Finance costs increased by approximately RMB 460,000, mainly due to the increase in bank loans.

Other credits / (Other charges)

Other credits for the current quarter ended 30 June 2010 comprise a foreign exchange adjustment gain of approximately RMB 1,000 and a write back of allowance for impairment on trade receivables of RMB 157,000. For the previous corresponding quarter ended 30 June 2009, other credits comprise of gain on disposal of property, plant and equipment of approximately RMB 79,000

Foreign exchange adjustment gain or loss arises from foreign exchange rate changes between Renminbi (RMB), US Dollars and Singapore Dollars.

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)**

Operating expenses

Distribution costs increased by approximately RMB 1.7 million or 44.9% to RMB 5.4 million in 1Q2011 from RMB 3.7 million in 1Q2010 which is in line with the increase in our revenue. There was also an increase in transportation costs as there were increased trips directly to end customers instead of distributors in the region.

Administrative expenses rose by approximately RMB 2.2 million or 28.9% to RMB 9.9 million in 1Q2011 from RMB 7.7 million in 1Q2010. These increased administrative expenses correlate with the improvement of our Group's revenue, in particular, the provision for safety expenses. Due to the commencement of the new production facilities, our subsidiary was also required to pay the land use rights tax and property tax during 1Q2011. No such expenses were incurred during 1Q2010. Amortisation of land use rights, licences and customer relationships also contributed to the increase in administrative expenses.

Executive directors' profit sharing is computed based on a certain pre-defined percentage of our profit before taxation and safety expenses is computed based on pre-defined percentages of our annual revenue as set by the State Administration of Work Safety of the PRC.

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%.

With the lowering of state income tax from 30.0% to 25.0% with effect from 1 January 2008, Yinguang Technology is liable to pay a reduced tax rate of 12.5%, representing 50.0% of the state income tax of 25.0%, for 2 years from 1 January 2008 to 31 December 2009.

With effect from 1 January 2010, our China subsidiaries are liable to pay the full tax rate of 25%. The effective tax rate for 1Q2011 was 28.8% (1Q2010: 14.9%). This is higher than the PRC tax rate of 25% (1Q2010: 12.5%) due to the corporate expenses incurred in Singapore and certain PRC expenses not deductible for tax purposes.

Balance sheet

Property, plant and equipment decreased by approximately RMB 2.1 million, mainly due to the depreciation charged during the current quarter of approximately RMB 3.4 million.

Intangible assets comprise of the Group's licences and customer relationships which arise during the purchase price allocation ("PPA") exercise for the acquisition of Hebei Yinguang. Intangible assets decreased by approximately RMB 0.2 million mainly due to the amortisation charges during the current quarter.

Other assets, non-current relate to the Group's land use rights. Land use rights decreased by approximately RMB 0.2 million due to the amortisation charge during the current quarter.

Deferred tax assets relate to the deferred tax difference for allowance for impairment and provision for safety expenses.

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 (Cont'd)

Inventories, trade and other receivables, other assets and cash and cash equivalents, represent approximately 12.9%, 40.2%, 7.4% and 39.5% of our total current assets as at 30 June 2010.

Inventories decreased by approximately RMB 9.9 million or 20.7% from 31 March 2010's RMB 47.8 million to 30 June 2010's RMB 37.9 million. The decrease was mainly due to the higher usage of raw materials and sales of finished goods during the current quarter.

Trade and other receivables increased by approximately RMB 19.1 million or 19.2 % mainly due to the higher sales revenue in 1Q2011 as compared to the previous quarter.

Other assets, comprising the Group's prepayments, decreased by approximately RMB 6.0 million or 21.6% to RMB 21.7 million as at 30 June 2010.

As at 30 June 2010, our current liabilities comprise income tax payable of RMB 1.6 million, trade and other payables of approximately RMB 113.6 million, other financial liabilities of approximately RMB 48.4 million and other liabilities of RMB 4.3 million. Non-current liabilities comprise of deferred tax liabilities of RMB 5.8 million and non-current portion of the finance lease obligation of RMB 0.2 million.

Trade payables and accruals increased slightly by approximately RMB 2.1 million mainly due to the increase in operations. Other payables reduced by approximately RMB 11.8 million mainly due to the payment of a land use right during the current quarter.

As at 30 June 2010, other financial liabilities comprised of bank loans of RMB 27.0 million, third party loan of RMB 21.3 million and current portion of finance lease obligation of approximately RMB 76,000. Bank loans increased by RMB 6.0 million from RMB 21.0 million as at 30 March 2010 to RMB 27.0 million as at 30 June 2010. During the current quarter, the Group repaid approximately RMB 1.3 million of third party loan.

Other liabilities of RMB 4.3 million relate to the Group's advances from customers.

Deferred tax liabilities of RMB 5.8 million relate to the deferred tax difference upon the finalisation of the PPA exercise for the acquisition of Hebei Yinguang

The current and non-current portion of the finance lease obligation of RMB 76,000 and RMB 0.2 million respectively relate to a 7-year finance lease secured against a motor vehicle with net book value of approximately RMB 320,000 as at 30 June 2010 and bears effective interest rate of 6.61% per annum.

Cash flow

For the current quarter ended 30 June 2010, the Group has net cash from operating activities of approximately RMB 6.4 million, net cash used in investing activities of approximately RMB 1.2 million and net cash from financing activities of approximately RMB 3.9 million.

The net cash from operating activities of RMB 6.4 million as compared to the previous corresponding quarter of net cash used in operating activities of RMB 21.3 million was mainly due to the payment of a bill payable during the previous corresponding quarter.

The net cash from financing activities of approximately RMB 3.9 million is mainly due to the increase in short-term bank loan of RMB 6.0 million, partially offset by the repayment of third party loan and interest expenses.

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.**

Sales of boosters to Dyno Nobel Australia

During the current quarter ended 30 June 2010, the Group made a maiden sale of boosters to Dyno Nobel Australia. Although the sales revenue from this trial shipment is not material at this juncture, the Group expects the sales volume to Dyno Nobel to increase gradually in the future.

Cessation of tube charges production

The Group has introduced new technology, using detonating cords, to replace tube charges for its designated explosives use. The new technology and method is well-received by our existing tube charges customers. Thus, the Group will cease to produce tube charges and to promote the use of detonating cords to our tube charges customers. Over the past years, production of tube charges has been low and only represents less than 0.2% of our FY2010's full year revenue.

Global economic conditions

With the current global economic conditions, the board of directors remains cautious and will inform our shareholders of any material impact these economic conditions may have on the Group's future performance.

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 1st quarter financial statements set out above to be false or misleading in any material aspect.

For and On behalf of the Board of Directors

Sun Bowen
Managing Director

Bao Hongwei
Director

**BY ORDER OF THE BOARD
SUN BOWEN
MANAGING DIRECTOR
13 AUGUST 2010**