



Fabchem China Limited

Company registration number: 200413128G

Financial Statements for the Second Quarter ended 30 September 2011 (“2Q2012”)

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

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

	Group			Group		
	3 months from 1 Jul 2011 to 30 Sept 2011 RMB'000	3 months from 1 Jul 2010 to 30 Sept 2010 RMB'000	Increase/(Decrease) %	6 months from 1 Apr 2011 to 30 Sept 2011 RMB'000	6 months from 1 Apr 2010 to 30 Sept 2010 RMB'000	Increase/(Decrease) %
Revenue	131,871	90,892	45.1	269,651	194,192	38.9
Cost of sales	(89,508)	(63,017)	42.0	(185,216)	(133,002)	39.3
Gross profit	42,363	27,875	52.0	84,435	61,190	38.0
<u>Other Items of Income</u>						
Interest income	181	60	201.7	419	224	87.1
Other credits – Note (i)	545	824	(33.9)	1,612	981	64.3
<u>Other Items of Expense</u>						
Distribution costs	(8,163)	(5,080)	60.7	(17,031)	(10,509)	62.1
Administrative expenses	(11,486)	(8,714)	31.8	(23,765)	(18,604)	27.7
Financial costs	(717)	(570)	25.8	(1,377)	(1,328)	3.7
Other charges– Note (ii)	(145)	(911)	(84.1)	(142)	(910)	(84.4)
Profit before income tax	22,578	13,484	67.4	44,151	31,044	42.2
Income tax expense	(6,652)	(4,669)	42.5	(12,971)	(9,676)	34.1
Profit attributable to shareholders	15,926	8,815	80.7	31,180	21,368	45.9
Note (i) – Other Credits						
Foreign exchange adjustment gain	451	-	N.M.	104	-	N.M.
Gain on sale of fixed assets	-	11	N.M.	-	11	N.M.
Government Grant	-	813	N.M.	1,414	813	73.9
Write back of allowance for impairment on trade receivables	94	-	N.M.	94	157	(40.1)
	545	824	(33.9)	1,612	981	64.3
Note (ii) – Other Charges						
Loss on sale of fixed assets	(145)	-	N.M.	(142)	-	N.M.
Foreign exchange adjustment loss	-	(911)	N.M.	-	(910)	N.M.
	(145)	(911)	(84.1)	(142)	(910)	(84.4)

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

Amortisation expenses	(456)	(424)	7.5	(912)	(848)	7.5
Depreciation expenses	(4,192)	(4,424)	(5.2)	(8,283)	(7,859)	5.4
Foreign exchange adjustment gain / (loss)	451	(911)	(149.5)	104	(910)	(111.4)
(Loss)/Gain on sale of fixed assets	(145)	11	(1418.2)	(142)	11	(1390.9)
Interest expense	(717)	(570)	25.8	(1,377)	(1,328)	3.7
Interest income from bank deposits	181	60	201.7	419	224	87.1
Write back of allowance for impairment on trade receivables	94	-	N.M.	94	157	(40.1)

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			Group		
	3 months from 1 Jul 2011 to 30 Sept 2011 RMB'000	3 months from 1 Jul 2010 to 30 Sept 2010 RMB'000	Increase/(Decrease) %	6 months from 1 Apr 2011 to 30 Sept 2011 RMB'000	6 months from 1 Apr 2010 to 30 Sept 2010 RMB'000	Increase/(Decrease) %
Profit attributable to shareholders	15,926	8,815	80.7	31,180	21,368	45.9
Foreign currency translation difference	(642)	772	(183.2)	(460)	725	(163.4)
Total comprehensive income for the period	<u>15,284</u>	<u>9,587</u>	59.4	<u>30,720</u>	<u>22,093</u>	39.0

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

	Group		Company	
	30 September 2011 RMB'000	31 March 2011 RMB'000	30 September 2011 RMB'000	31 March 2011 RMB'000
ASSETS				
Non-current assets :				
Property, plant and equipment	175,882	181,277	265	300
Intangible assets	6,109	6,541	-	-
Other assets, non-current	52,820	53,300	-	-
Deferred tax assets	3,869	4,110	-	-
Investment in subsidiary	-	-	111,265	117,175
Total non-current assets	238,680	245,228	111,530	117,475
Current assets :				
Inventories	44,309	46,534	-	-
Trade and other receivables (Note 1)	122,860	116,159	15,389	29,186
Other assets , current	25,621	30,302	97	73
Cash and cash equivalents	129,415	101,053	817	712
Total current assets	322,205	294,048	16,303	29,971
Total assets	560,885	539,276	127,833	147,446
EQUITY AND LIABILITIES				
Capital and reserves :				
Share capital	116,849	116,849	116,849	116,849
Retained earnings	253,183	231,074	7,671	20,451
Other reserves	41,337	38,911	(994)	5,377
Total equity	411,369	386,834	123,526	142,677
Non-Current liabilities :				
Deferred tax liabilities	5,569	5,380	-	-
Other financial liabilities	50	97	50	97
Total non-current liabilities	5,619	5,477	50	97
Current liabilities :				
Income tax payable	4,191	3,068	-	-
Trade and other payables (Note 2)	113,369	102,143	4,174	4,587
Other financial liabilities, current	23,582	39,515	83	85
Other liabilities	2,755	2,239	-	-
Total current liabilities	143,897	146,965	4,257	4,672
Total liabilities	149,516	152,442	4,307	4,769
Total liabilities and equity	560,885	539,276	127,833	147,446
Note 1				
Trade receivables	121,637	114,936	-	-
Dividend receivable from subsidiary	-	-	15,389	29,186
Other receivables	1,223	1,223	-	-
Total trade and other receivables	122,860	116,159	15,389	29,186
Note 2				
Trade payables and accruals	73,064	72,779	3,516	4,469
Other payables	40,305	29,364	658	118
Total trade and other payables	113,369	102,143	4,174	4,587

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 2011		31 March 2011	
Secured	Unsecured	Secured	Unsecured
14,083	9,499	10,085	29,430

Amount repayable after one year

(RMB'000)

30 September 2011		31 March 2011	
Secured	Unsecured	Secured	Unsecured
50	-	97	-

Details of any collateral

As at 30 September 2011, the Group has secured borrowings comprising a 7-year finance lease of approximately RMB 133,000 for the purchase of a motor vehicle and aggregate secured short-term bank loans of RMB 14 million. Unsecured borrowings relate to a loan from a third party of RMB 9.5 million.

The finance lease is secured against the motor vehicle with net book value of approximately RMB 254,000, and bears effective interest rate of 6.61% per annum.

Secured short-term bank loans are secured using Hebei Yinguang Chemical Co., Ltd's ("Hebei Yinguang") land and buildings with net book value of approximately RMB 17.5 million and guaranteed by a corporate guarantee from Shandong Yinguang Chemical Group Co., Ltd, the former holding company of Hebei Yinguang. The secured short-term bank loans' interest rate is 8.203% per annum.

Unsecured borrowing of RMB 9.5 million relates to a loan from Linxi County Nitrogenous Fertilizer Co., Ltd. A portion of the unsecured loan from Linxi County Nitrogenous Fertilizer Co., Ltd has an interest rate of 12% per annum.

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

	Group		Group	
	3 months from 1 Jul 2011 to 30 Sept 2011 RMB'000	3 months from 1 Jul 2010 to 30 Sept 2010 RMB'000	6 months from 1 Apr 2011 to 30 Sept 2011 RMB'000	6 months from 1 Apr 2010 to 30 Sept 2010 RMB'000
Cash flows from operating activities				
Profit before income tax	22,578	13,484	44,151	31,044
Adjustments for :				
Amortisation expenses	456	424	912	848
Depreciation expense	4,192	4,424	8,283	7,859
Loss/(Gain) on sale of fixed assets	145	(11)	142	(11)
Interest income	(181)	(60)	(419)	(224)
Interest expenses	717	570	1,377	1,328
Write back of allowance for impairment on trade receivables	(94)	-	(94)	(157)
Net effect of exchange rate changes in translation of financial statements of Parent	(625)	758	(446)	712
Operating profit before working capital changes	27,188	19,589	53,906	41,399
Inventories	(4,954)	(2,770)	2,225	7,100
Trade and other receivables	7,303	16,990	(6,607)	(1,564)
Other assets	212	(1,816)	4,681	4,166
Trade and other payables	15,901	(20,447)	11,226	(30,135)
Other liabilities	729	(1,687)	516	(805)
Cash generated from operations	46,379	9,859	65,947	20,161
Income tax paid	(6,072)	(3,199)	(11,418)	(7,101)
Net cash from operating activities	40,307	6,660	54,529	13,060
Cash flows from investing activities				
Proceeds from sale of property, plant and equipment	349	100	434	100
Purchase of property, plant and equipment	(2,930)	(2,505)	(3,478)	(3,844)
Interest received	181	60	419	224
Net cash used in investing activities	(2,400)	(2,345)	(2,625)	(3,520)
Cash flows from financing activities				
Payment of dividends	(6,185)	(5,887)	(6,185)	(5,887)
Repayment of finance lease obligation (Repayment) / increase in short-term bank loans	(11,000)	(2,000)	(11,000)	4,000
Repayment of third party loan	(881)	(5,644)	(4,931)	(6,937)
Interest paid	(717)	(570)	(1,377)	(1,328)
Net cash used in financing activities	(18,813)	(14,109)	(23,542)	(10,179)
Net increase/(decrease) in cash	19,094	(9,794)	28,362	(639)
Cash at beginning of the period	110,321	116,410	101,053	107,255
Cash at end of the period	129,415	106,616	129,415	106,616

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 exchange translation reserves	Retained earnings	Total
Group (RMB'000)					
Balance at 1 April 2011	116,849	37,567	1,344	231,074	386,834
Appropriation for the period	-	1,331	-	(1,331)	-
Total comprehensive income for the period	-	-	182	15,254	15,436
Balance at 30 June 2011	116,849	38,898	1,526	244,997	402,270
Appropriation for the period	-	1,555	-	(1,555)	-
Dividend paid	-	-	-	(6,185)	(6,185)
Total comprehensive (loss)/income for the period	-	-	(642)	15,926	15,284
Balance at 30 September 2011	116,849	40,453	884	253,183	411,369
Balance at 1 April 2010	116,849	33,360	451	205,844	356,504
Appropriation for the period	-	1,461	-	(1,461)	-
Total comprehensive (loss)/income for the period	-	-	(47)	12,553	12,506
Balance at 30 June 2010	116,849	34,821	404	216,936	369,010
Appropriation for the period	-	1,080	-	(1,080)	-
Dividend paid	-	-	-	(5,887)	(5,887)
Total comprehensive income for the period	-	-	772	8,815	9,587
Balance at 30 September 2010	116,849	35,901	1,176	218,784	372,710

	Share capital	Foreign exchange translation reserve	Retained earnings/ (Accumulated losses)	Total
Company (RMB'000)				
Balance at 1 April 2011	116,849	5,377	20,451	142,677
Total comprehensive income/(loss) for the period	-	887	(3,607)	(2,720)
Balance at 30 June 2011	116,849	6,264	16,844	139,957
Dividend paid	-	-	(6,185)	(6,185)
Total comprehensive loss for the period	-	(7,258)	(2,988)	(10,246)
Balance at 30 September 2011	116,849	(994)	7,671	123,526
Balance at 1 April 2010	116,849	(2,506)	18,139	132,482
Total comprehensive loss for the period	-	(449)	(2,643)	(3,092)
Balance at 30 June 2010	116,849	(2,955)	15,496	129,390
Dividend paid	-	-	(5,887)	(5,887)
Total comprehensive income/(loss) for the period	-	5,721	(3,520)	2,201
Balance at 30 September 2010	116,849	2,766	6,089	125,704

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.

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 September 2011	31 March 2011
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		Group	
	3 months ended 30 Sept 2011	3 months ended 30 Sept 2010	6 months ended 30 Sept 2011	6 months ended 30 Sept 2010
	RMB cents	RMB cents	RMB cents	RMB cents
Earnings per ordinary share for the year based on net profit attributable to shareholders :				
Based on weighted average number of ordinary shares in issue	6.81	3.77	13.3	9.13
Weighted average number of ordinary shares in issue for basic earnings per share	234,000,000	234,000,000	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 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 2011	31 March 2011	30 Sept 2011	31 March 2011
	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	175.80	165.31	52.79	60.97
Number of shares used in calculating net asset value	234,000,000	234,000,000	234,000,000	234,000,000

8. **A review of the performance of the group, to the extent necessary for a reasonable understanding of the group's business. It must include a discussion of the following :-**
- **any significant factors that affected the turnover, costs, and earnings of the group for the current financial period reported on, including (where applicable) seasonal or cyclical factors; and**
 - **any material factors that affected the cash flow, working capital, assets and liabilities of the group during the current financial period reported on. (Cont'd)**

Revenue (cont'd)

a) **Sales within PRC**

During 2Q2012, sales within PRC increased by approximately RMB 27.4 million or 33.1% as compared to 2Q2011. The increase was mainly due to the higher domestic PRC sales of ammonium nitrate, detonating cords and piston non-electric detonators which increased by RMB 15.1 million, RMB 4.5 million and RMB 5.9 million respectively.

For the 6M2012, sales within PRC increased by approximately RMB 51.5 million or 30.4% from RMB 169.6 million in 6M2011 to RMB 221.1 million in 6M2012 due largely to increased sales of ammonium nitrate by approximately RMB 40.8 million or 65.8% from RMB 62.0 million in 6M2011 to RMB 102.8 million in 6M2012.

b) **Sales to Australia**

During 2Q2012, sales to Australia increased by approximately RMB 5.0 million or 168.5% mainly due to higher sales to Orica Limited in Australia which increased by approximately RMB 4.7 million.

During 6M2012, sales to Australia increased by approximately RMB 12.2 million or 79.2% mainly due to increased in sales to Dyno Nobel Australia of approximately RMB 11.6 million.

c) **Sales to other countries**

During 2Q2012 and 6M2012, sales to other countries increased by approximately RMB 8.0 million and RMB 7.8 million respectively. The increase in sales to other countries is mainly due to increased sales to Indonesia and Kyrgyzstan.

d) **Sales through export distributors**

The fluctuations in sales revenue were mainly due to the different shipping schedules determined by our customers.

All domestic 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

During 2Q2012, the Group's gross profit margin increased marginally by approximately 1.4%, from 30.7% in 2Q2011 to 32.1% in 2Q2012. Despite higher raw materials prices and the higher proportion of lower-margin products (explosives devices) in our product sales-mix, the Group managed to improve our production efficiency during 2Q2012 and improve our gross profit margins across most of our product segments. Sales of boosters increased by approximately RMB 17.9 million or 155.6% as compared to the previous corresponding quarter, and represented approximately 22.3% of our 2Q2012's revenue as compared to only 12.7% of our 2Q2011's revenue.

For 6M2012, the Group's gross profit margin decreased marginally by 0.2% from 6M2011's 31.5% to 6M2012's 31.3%. The marginal decrease was mainly attributed to the higher raw materials prices and higher proportion of lower-margin products (explosives devices and ammonium nitrate) in our product sales-mix. However, the Group managed to improve our production efficiency as part of our initiative to improve our overall gross profit margins.

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)**

Interest income / (Finance costs)

For 2Q2012 and 6M2012, interest income increased by approximately RMB 121,000 and RMB 195,000 respectively due to increase in bank deposits.

For 2Q2012 and 6M2012, finance costs also increased by approximately RMB 147,000 and RMB 49,000, mainly due to the increase in interest rates for Hebei Yinguang's bank loans. Secured bank loans interest rates increased from approximately 6.903% during 6M2011 to 8.203% during 6M2012. Bank loans of RMB 11.0 million were repaid at the end of September 2011, thus it did not reduce the interest expenses for the current period under review.

Other credits / (Other charges)

For 2Q2012, other credits relate to foreign exchange adjustment gain of RMB 451,000 and write-back of allowance for impairment on trade receivables of RMB 94,000. For 6M2012, other credits include a foreign exchange gain of RMB 104,000, a government grant of approximately RMB 1.4 million by Hebei Province, Linxi County's government for our subsidiary, Hebei Yinguang and a write-back of allowance for impairment on trade receivables of RMB 94,000. For 6M2011, other credits include gain on sale of fixed assets of RMB 11,000, government grant of RMB 813,000 and a write-back of allowance for impairment of trade receivables of RMB 157,000.

Other charges for 2Q2012 and 6M2012 relate to the loss on sales of fixed assets. Other charges for 2Q2011 and 6M2011 relate to foreign exchange adjustment loss.

Foreign exchange adjustment gain/(losses) arose mainly from foreign exchange rate fluctuation among Renminbi (RMB), United States Dollar (US\$) and Singapore Dollars (S\$).

Operating expenses

In line with the increase in sales revenue, distribution costs increased by approximately RMB 3.1 million or 60.7% to RMB 8.2 million in 2Q2012 from RMB 5.1 million in 2Q2011. The Group also incurred additional sales tax of approximately RMB 0.9 million which came into effect in December 2010.

Administrative expenses rose by approximately RMB 2.8 million or 31.8% to RMB 11.5 million in 2Q2012 from RMB 8.7 million in 2Q2011. The increase in administrative expenses was mainly due to the increase in provision for safety expenses and executive directors' profit sharing, which correlate directly with the increase in sales revenue and profit before taxation during 2Q2012.

For 6M2012, distribution costs increased by approximately RMB 6.5 million or 62.1% from 6M2011's RMB 10.5 million to 6M2012's RMB 17.0 million and administrative expenses increased by approximately RMB 5.2 million or 27.7% from 6M2011's RMB 18.6 million to 6M2012's RMB 23.8 million. The increased in operating expenses was mainly due to the reasons highlighted in the preceding paragraphs.

Income tax expenses

The effective tax rate for 2Q2012 and 6M2012 was 29.5% and 29.4% (2Q2011: 34.6% ; 6M2011: 31.2%). This is higher than the PRC concessionary tax rate of 25.0% mainly due to non-deductible expenses and the corporate expenses incurred in Singapore.

8. **A review of the performance of the group, to the extent necessary for a reasonable understanding of the group's business. It must include a discussion of the following :-**
- **any significant factors that affected the turnover, costs, and earnings of the group for the current financial period reported on, including (where applicable) seasonal or cyclical factors; and**
 - **any material factors that affected the cash flow, working capital, assets and liabilities of the group during the current financial period reported on. (Cont'd)**

Balance sheet

Property, plant and equipment decreased by approximately RMB 5.4 million, mainly due to the depreciation charge of approximately RMB 8.3 million during the current financial period, which was partially offset by the purchase of miscellaneous equipment and machineries.

Intangible assets comprised of the Group's licences and customer relationships which arose during the purchase price allocation ("PPA") exercise for the acquisition of Hebei Yinguang during FY2010. Intangible assets decreased by approximately RMB 0.4 million mainly due to the amortisation charges during the current financial period.

Other assets, non-current relate to the Group's land use rights. Land use rights decreased by approximately RMB 0.5 million due to the amortisation charge during the current financial period.

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

Inventories, trade and other receivables, other assets and cash and cash equivalents, represented approximately 13.8%, 38.1%, 7.9% and 40.2% of our total current assets as at 30 September 2011.

Inventories decreased marginally by approximately RMB 2.2 million or 4.8% from 31 March 2011's RMB 46.5 million to 30 September 2011's RMB 44.3 million. The decrease was mainly due to the sales of finished goods during the current financial period.

Trade and other receivables increased by approximately RMB 6.7 million or 5.8%, mainly due to the increase in sales revenue during the current financial period.

Other assets, current comprising the Group's prepayments, decreased by approximately RMB 4.7 million or 15.4% to RMB 25.6 million as at 30 September 2011. The decrease was mainly due to the receipt of raw materials, prepaid as of 31 March 2011, for production during the current quarter under review.

As at 30 September 2011, our current liabilities comprised of income tax payable of RMB 4.2 million, trade and other payables of approximately RMB 113.4 million, other current financial liabilities of approximately RMB 23.6 million and other liabilities of RMB 2.8 million. Non-current liabilities comprised of deferred tax liabilities of RMB 5.6 million and non-current portion of the finance lease obligation of RMB 50,000.

Trade and other payables increased by approximately RMB 11.2 million mainly due to the increase in purchases and provision for safety expenses.

As at 30 September 2011, other current financial liabilities comprised of bank loans of RMB 14.0 million, third party loan of RMB 9.5 million and current portion of finance lease obligation of approximately RMB 83,000. During the current financial period ended 30 September 2011, the Group repaid approximately RMB 11.0 million of bank loans and RMB 0.9 million of third party loan.

Other liabilities of RMB 2.8 million relate to the Group's advances from customers.

Deferred tax liabilities of RMB 5.6 million relate mainly to the deferred tax difference upon the finalisation of the PPA exercise for the acquisition of Hebei Yinguang.

The current and non-current portions of the finance lease obligation of RMB 83,000 and RMB 50,000 respectively relate to a 7-year finance lease secured against a motor vehicle with net book value of approximately RMB 254,000 as at 30 September 2011, which bears effective interest rate of 6.61% per annum.

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)**

Cash flow

For the 3 months ended 30 September 2011, the Group recorded net cash generated from operating activities of approximately RMB 40.3 million, net cash used in investing and financing activities of approximately RMB 2.4 million and RMB 18.8 million, respectively.

For the current 6 months ended 30 September 2011, the Group recorded net cash generated from operating activities of approximately RMB 54.5 million, net cash used in investing and financing activities of approximately RMB 2.6 million and RMB 23.5 million respectively.

The increased in net cash from operating activities during 2Q2012 and 6M2012 was mainly due to the improvement in working capital management during the current period under review.

The cash outflow in investing activities was mainly due to the purchase of miscellaneous property, plant and equipment. The cash outflow in financing activities of approximately RMB 18.8 million during 2Q2012 was mainly due to the repayment in short-term bank loan of RMB 11.0 million and payment of dividend of approximately RMB 6.2 million in August 2011.

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.**

Shareholders Approved Acquisition of Land and Buildings (the "Property")

During the Extraordinary General Meeting ("EGM") held on 28 July 2011, the Shareholders of the Company approved the acquisition of the Property at Fei County, Linyi City, Shandong Province, PRC where the Group's manufacturing facilities and warehouses (for the production of the Group's initiation systems products) are located.

The Group has been leasing the Property since 16 November 2004 and the latest rental expense amounts to RMB 8 million per annum. The rental lease has since ended in June 2011, that is, one calendar month prior to the calendar month in which the EGM was held and shall not be payable thereafter.

In accordance with the agreement for the acquisition of the Property, the Group has since paid RMB 1.0 million to the Vendor upon signing the Agreement. With shareholders' approval secured at the EGM on 28 July 2011, the Group is due to pay RMB 9.0 million to the Vendor. Till date, only RMB 1.0 million was paid out of the RMB 9.0 million. The Group is currently liaising with the Vendor to pay the remaining RMB 8.0 million.

For further information, please refer to the Circular to Shareholders dated 12 July 2011.

New detonating cords production facilities

Following our earlier announcements on the proposed new detonating cords production facilities, we have obtained MIIT's approval and have commenced preliminary engineering work. The new production facilities will increase our detonating cords production capacity from 50 million meters to 80 million meters. Currently, our existing detonating cords facilities are operating at near-full production capacity. We target to commence commercial operation of the new production facilities by April 2013.

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/recommendeded, a statement to that effect.

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

13. Interested Person Transaction

		Aggregate value of all interested person transactions during the financial period under review (excluding transactions less than \$100,000 and transactions conducted under shareholders' mandate pursuant to Rule 920)		Aggregate value of all interested person transactions conducted under shareholders' mandate pursuant to Rule 920 (excluding transactions less than \$100,000)	
		2Q2012	2Q2011	2Q2012	2Q2011
Name of interested person	Nature	RMB'000	RMB'000	RMB'000	RMB'000
Shandong Yinguang Chemical Industry Co., Ltd	Rental of manufacturing facilities, offices and warehouses	-	2,000	-	-
Feixian Yinguang Transport Co., Ltd	Payment of transportation charges	782	646	-	-
Shandong Yinguang Commerical Explosives Sales and Services Co., Ltd	Sales of commercial explosives products	448	504	-	-
Shandong Yinguang Chemical Group Co., Ltd ⁽¹⁾	Sales of ammonium nitrate	-	-	567	351
Dyno Nobel Australia	Sales of commercial explosives	943	-	-	-
		6M2012	6M2011	6M2012	6M2011
Name of interested person	Nature	RMB'000	RMB'000	RMB'000	RMB'000
Shandong Yinguang Chemical Industry Co., Ltd	Rental of manufacturing facilities, offices and warehouses	2,000	4,000	-	-
Feixian Yinguang Transport Co., Ltd	Payment of transportation charges	1,999	1,302	-	-
Shandong Yinguang Commerical Explosives Sales and Services Co., Ltd	Sales of commercial explosives products	1,009	1,049	-	-
Shandong Yinguang Chemical Group Co., Ltd ⁽¹⁾	Sales of ammonium nitrate	-	-	1,854	4,699
Dyno Nobel Australia	Sales of commercial explosives	13,313	751	-	-

Footnote:

(1) The relevant general mandate was updated and approved at the Annual General Meeting held on 28 July 2011.

14. Negative assurance confirmation pursuant to Rule 705(5) 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 2nd 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
10 NOVEMBER 2011**