



Fabchem China Limited

Company registration number: 200413128G

Financial Statements for the Third Quarter ended 31 December 2017 (“3Q2018”)

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 Oct 2017 to 31 Dec 2017 RMB'000	3 months from 1 Oct 2016 to 31 Dec 2016 RMB'000	Increase/ (Decrease) %	9 months from 1 Apr 2017 to 31 Dec 2017 RMB'000	9 months from 1 Apr 2016 to 31 Dec 2016 RMB'000	Increase/ (Decrease) %
Revenue	41,232	38,360	7.5	138,304	106,651	29.7
Cost of sales	(35,349)	(31,990)	10.5	(110,702)	(92,845)	19.2
Gross profit	5,883	6,370	(7.6)	27,602	13,806	99.9
Other Items of Income						
Interest income	70	72	(2.8)	211	218	(3.2)
Other gains – Note (i)	735	431	70.5	1,448	1,346	7.6
Other Items of Expense						
Distribution costs	(5,861)	(5,569)	5.2	(15,919)	(12,081)	31.8
Administrative expenses	(8,597)	(8,823)	(2.6)	(23,988)	(25,088)	(4.4)
Financial costs	(966)	(958)	0.8	(2,552)	(2,827)	(9.7)
Other losses – Note (ii)	(460)	(3,878)	(88.1)	(609)	(4,078)	(85.1)
Loss before tax from continuing operations	(9,196)	(12,355)	N.M.	(13,807)	(28,704)	N.M.
Income tax expense	(157)	(205)	(23.4)	(856)	(621)	37.8
Loss from continuing operations, net of tax	(9,353)	(12,560)	N.M.	(14,663)	(29,325)	N.M.
Gain from discontinued operations, net of tax	-	-	-	-	26,157	N.M.
Loss net of tax	(9,353)	(12,560)	N.M.	(14,663)	(3,168)	N.M.
Note (i) – Other Gains						
Allowance for impairment on trade receivables - reversal	105	63	66.7	280	452	(38.1)
Gain on disposal of property, plant and equipment	91	240	(62.1)	411	247	66.4
Government Grant	539	128	321.1	757	647	17.0
	735	431	70.5	1,448	1,346	7.6
Note (ii) – Other Losses						
Allowance for impairment on trade receivables	-	(3,592)	N.M.	-	(3,592)	N.M.
Foreign exchange adjustment loss	(402)	(286)	40.6	(551)	(486)	13.4
Inventories written-off	(58)	-	N.M.	(58)	-	N.M.
	(460)	(3,878)	(88.1)	(609)	(4,078)	(85.1)

- 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. (Cont'd)

Loss before tax from continuing operations was stated after crediting / (charging) :-

	Group			Group		
	3 months from 1 Oct 2017 to 31 Dec 2017 RMB'000	3 months from 1 Oct 2016 to 31 Dec 2016 RMB'000	Increase/(Decrease) %	9 months from 1 Apr 2017 to 31 Dec 2017 RMB'000	9 months from 1 Apr 2016 to 31 Dec 2016 RMB'000	Increase/(Decrease) %
Allowance for impairment on trade receivables - reversal	105	63	66.7	280	451	(37.9)
Allowance for impairment on trade receivables	-	(3,592)	N.M.	-	(3,592)	N.M.
Amortisation expenses	(699)	(662)	5.6	(2,021)	(2,024)	(0.1)
Depreciation expenses	(4,550)	(4,455)	2.1	(13,584)	(13,468)	0.9
Gain on disposal of property, plant and equipment	91	240	(62.1)	411	247	66.4
Interest expense	(966)	(958)	0.8	(2,552)	(2,827)	(9.7)
Interest income from bank deposits	70	72	(2.8)	211	218	(3.2)
Inventories written-off	58	-	N.M.	58	-	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			Group		
	3 months from 1 Oct 2017 to 31 Dec 2017 RMB'000	3 months from 1 Oct 2016 to 31 Dec 2016 RMB'000	Increase/(Decrease) %	9 months from 1 Apr 2017 to 31 Dec 2017 RMB'000	9 months from 1 Apr 2016 to 31 Dec 2016 RMB'000	Increase/(Decrease) %
Loss net of tax	(9,353)	(12,560)	N.M.	(14,663)	(3,168)	N.M.
Foreign currency translation difference	(3)	(10)	(70.0)	(16)	(143)	(88.8)
Total comprehensive loss for the period	(9,356)	(12,570)	N.M.	(14,679)	(3,311)	N.M.

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	
	31 Dec 2017 RMB'000	31 March 2017 RMB'000	31 Dec 2017 RMB'000	31 March 2017 RMB'000
ASSETS				
Non-current assets :				
Property, plant and equipment	200,905	207,940	88	113
Other assets, non-current	80,949	75,566	-	-
Investment in subsidiary	-	-	109,744	111,150
Deferred tax assets	16,996	17,327	-	-
Total non-current assets	298,850	300,833	109,832	111,263
Current assets :				
Inventories	42,449	35,353	-	-
Trade and other receivables (Note 1)	60,054	61,135	2,596	30
Other assets, current	10,447	20,365	127	143
Cash and cash equivalents	81,464	83,250	396	200
Total current assets	194,414	200,103	3,119	373
Total assets	493,264	500,936	112,951	111,636
EQUITY AND LIABILITIES				
Capital and reserves :				
Share capital	116,849	116,849	116,849	116,849
Retained earnings/(Accumulated losses)	148,692	163,355	(4,537)	(7,816)
Other reserves	88,953	88,969	(2,563)	(1,141)
Total equity	354,494	369,173	109,749	107,892
Non-Current liabilities :				
Deferred tax liabilities	2,050	2,075	-	-
Total non-current liabilities	2,050	2,075	-	-
Current liabilities :				
Trade and other payables (Note 2)	73,911	67,489	3,202	3,744
Other financial liabilities, current	59,650	59,650	-	-
Other liabilities	3,159	2,549	-	-
Total current liabilities	136,720	129,688	3,202	3,744
Total liabilities	138,770	131,763	3,202	3,744
Total liabilities and equity	493,264	500,936	112,951	111,636
Note 1				
Trade receivables	52,011	53,284	-	-
Amount receivable from subsidiary	-	-	2,596	30
Other receivables	8,043	7,851	-	-
Trade and other receivables	60,054	61,135	2,596	30
Note 2				
Trade payables and accruals	51,306	45,999	2,614	3,320
Other payables	22,605	21,490	588	424
Trade and other payables	73,911	67,489	3,202	3,744

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

Amount repayable in one year or less, or on demand

(RMB'000)

31 December 2017		31 March 2017	
Secured	Unsecured	Secured	Unsecured
59,650	-	59,650	-

Amount repayable after one year

(RMB'000)

31 December 2017		31 March 2017	
Secured	Unsecured	Secured	Unsecured
-	-	-	-

Details of any collateral

As at 31 December 2017, the Group has aggregate secured short-term loans from financial institutions of RMB 59.7 million.

Secured short-term bank loans of RMB 59.7 million are secured using our subsidiary, Shandong Yinguang Technology Co., Ltd ("Yinguang Technology")'s land and buildings with net book value of approximately RMB 76.7 million. The secured short-term bank loans bear interest rates ranging from 4.73% to 4.816% 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 Oct 2017 to 31 Dec 2017 RMB'000	3 months from 1 Oct 2016 to 31 Dec 2016 RMB'000	9 months from 1 Apr 2017 to 31 Dec 2017 RMB'000	9 months from 1 Apr 2016 to 31 Dec 2016 RMB'000
Cash flows from operating activities				
Loss before income tax	(9,196)	(12,355)	(13,807)	(28,704)
Adjustments for :				
Amortisation expenses	699	662	2,021	2,024
Allowance for impairment on trade receivables - reversal	(105)	(63)	(280)	(452)
Depreciation expense	4,550	4,455	13,584	13,468
Gain on disposal of property, plant and equipment	(91)	(240)	(411)	(247)
Allowance for impairment on trade receivables	-	3,592	-	3,592
Interest expenses	966	958	2,552	2,827
Interest income	(70)	(72)	(211)	(218)
Inventories written-off	58	-	58	-
Provision for safety expenses	631	616	1,965	1,806
Net effect of exchange rate changes in translation of financial statements of Parent	(6)	(11)	(18)	143
Operating (loss) / profit before working capital changes	(2,564)	(2,458)	5,453	(5,761)
Inventories	(6,390)	(1,672)	(7,154)	(573)
Trade and other receivables	12,795	(1,403)	1,361	5,250
Other assets	1,065	(1,188)	2,514	(7,345)
Trade and other payables	101	(3,790)	6,422	10,525
Other liabilities	56	(752)	(1,355)	(1,986)
Cash generated from / (used in) operations	5,063	(11,263)	7,241	110
Income tax paid	(250)	1	(550)	-
Net cash flows from / (used in) operating activities, continuing operations	4,813	(11,262)	6,691	110
Net cash flows from / (used in) operating activities, discontinued operating activities	-	-	-	(34,220)
Net cash from / (used in) operating activities	4,813	(11,262)	6,691	(34,110)
Cash flows from investing activities				
Proceeds from disposal of property, plant and equipment	152	1,316	552	1,581
Purchase of property, plant and equipment	(3,823)	(871)	(6,688)	(9,590)
Purchase of land use rights	-	-	-	(58)
Interest received	70	72	211	218
Cashflow from disposal of subsidiary (Note A)	-	-	-	(492)
Net cash flows (used in) / from investing activities, continuing operations	(3,601)	517	(5,925)	(8,341)
Net cash flows from discontinued investing activities	-	-	-	34,944
Net cash (used in) / from investing activities	(3,601)	517	(5,925)	26,603

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. (Cont'd)

	Group		Group	
	3 months from 1 Oct 2017 to 31 Dec 2017 RMB'000	3 months from 1 Oct 2016 to 31 Dec 2016 RMB'000	9 months from 1 Apr 2017 to 31 Dec 2017 RMB'000	9 months from 1 Apr 2016 to 31 Dec 2016 RMB'000
Cash flows from financing activities				
Proceeds from bank borrowings	21,650	21,650	59,650	81,550
Repayment of borrowings	(21,650)	-	(59,650)	(67,401)
Interest paid	(966)	(958)	(2,552)	(2,827)
Net cash flows (used in) / from financing activities, continuing operations	(966)	20,692	(2,552)	11,322
Net cash flows used in discontinued financing operations	-	-	-	(995)
Net cash (used in) / from financing activities	(966)	20,692	(2,552)	10,327
Net increase / (decrease) in cash	246	9,947	(1,786)	2,820
Cash and cash equivalents at beginning of the period	81,218	83,909	83,250	91,036
Cash and cash equivalents at end of the period	81,464	93,856	81,464	93,856

Note A: Disposal of subsidiary

During 9M2017, the book values of net assets of subsidiary disposed were as follows:

Property, plant and equipment	-	-	-	(840)
Other assets, non-current	-	-	-	(10,774)
Inventories	-	-	-	(2,029)
Trade receivables	-	-	-	(3,716)
Tax recoverable	-	-	-	(3,439)
Other receivables	-	-	-	(5,329)
Other assets, current	-	-	-	(5,157)
Cash and cash equivalents	-	-	-	(492)
Deferred tax liabilities	-	-	-	980
Trade payables and accruals	-	-	-	14,920
Other payables	-	-	-	2,109
Other financial liabilities, current	-	-	-	38,163
Other liabilities	-	-	-	5,718
Net liabilities disposed of	-	-	-	30,114
Gain on disposal	-	-	-	30,114
Consideration on disposal of subsidiary	-	-	-	*
Cash and cash equivalents	-	-	-	492
Cash flow on disposal	-	-	-	492

* Consideration on disposal is RMB 1

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	Capital reserve	Foreign exchange translation reserves	Retained earnings	Total
Group (RMB'000)						
Balance at 1 April 2017	116,849	44,117	44,000	852	163,355	369,173
Total comprehensive income for the period	-	-	-	(13)	(5,310)	(5,323)
Balance at 30 September 2017	116,849	44,117	44,000	839	158,045	363,850
Total comprehensive loss for the period	-	-	-	(3)	(9,353)	(9,356)
Balance at 31 December 2017	116,849	44,117	44,000	836	148,692	354,494
Balance at 1 April 2016	116,849	44,117	44,000	755	162,333	368,054
Total comprehensive income for the period	-	-	-	153	9,392	9,545
Balance at 30 September 2016	116,849	44,117	44,000	908	171,725	377,599
Appropriation for the period	-	-	-	-	-	-
Total comprehensive loss for the period	-	-	-	(10)	(12,560)	(12,570)
Balance at 31 December 2016	116,849	44,117	44,000	898	159,165	365,029

	Share capital	Foreign exchange translation reserve	Retained earnings/ (Accumulated losses)	Total
Company (RMB'000)				
Balance at 1 April 2017	116,849	(1,141)	(7,816)	107,892
Total comprehensive (loss)/income for the period	-	(681)	5,086	4,405
Balance at 30 September 2017	116,849	(1,822)	(2,730)	112,297
Total comprehensive loss for the period	-	(741)	(1,807)	(2,548)
Balance at 31 December 2017	116,849	(2,563)	(4,537)	109,749
Balance at 1 April 2016	116,849	(4,556)	2,671	114,964
Total comprehensive income/(loss) for the period	-	2,517	(5,884)	(3,367)
Balance at 30 September 2016	116,849	(2,039)	(3,213)	111,597
Total comprehensive loss for the period	-	(2,007)	(2,448)	(4,455)
Balance at 31 December 2016	116,849	(4,046)	(5,661)	107,142

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	
	31 December 2017	31 March 2017
Total number of issued shares	46,800,000	46,800,000

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, except for the separate disclosure for continuing and discontinued operation’s consolidated statement of comprehensive income and consolidated statement of cash flows for the reporting period from 1 October 2016 to 31 December 2016 (“3Q2017”) and 1 April 2016 to 31 December 2016 (“9M2017”) which were made to enhance comparability. It is not a restatement of the consolidated statement of comprehensive income and consolidated statement of cash flows for the reporting period for 3Q2017 and 9M2017. There is no change to the figures in the statement of financial position as at 31 December 2016.

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.**

Except as disclosed above, there are no material changes in the accounting policies and methods of computation.

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

	Group		Group	
	3 months ended 31 Dec 2017	3 months ended 31 Dec 2016	9 months ended 31 Dec 2017	9 months ended 31 Dec 2016
	RMB cents	RMB cents	RMB cents	RMB cents
(Loss)/Earnings per ordinary share for the year based on net profit attributable to shareholders :				
Based on weighted average number of ordinary shares in issue	(19.99)	(26.84)	(31.33)	(6.77)
Weighted average number of ordinary shares in issue for basic earnings per share	46,800,000	46,800,000	46,800,000	46,800,000

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	
	31 Dec 2017	31 March 2017	31 Dec 2017	31 March 2017
	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	757.47	788.83	234.51	230.54
Number of shares used in calculating net asset value	46,800,000	46,800,000	46,800,000	46,800,000

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 from continuing operations for the 3-month period ended 31 December 2017 ("3Q2018") increased by approximately RMB 2.9 million or 7.5%, from RMB 38.4 million for the 3-month period ended 31 December 2016 ("3Q2017") to RMB 41.2 million in 3Q2018. The increase in revenue during 3Q2018 was mainly attributed to the increased sales of explosives devices such as boosters but partially offset by the decline in sales registered for the rest of the Group's other product segments. The increased sales of boosters was due to higher production capacity of boosters as the Group's second automated boosters production line commenced production in April 2017.

Our products can be categorised mainly into (a) explosive devices such as boosters; (b) industrial fuse and initiating explosive devices such as detonating cords and non-electric tubes; (c) industrial detonators such as piston non-electric detonators; and (d) ammonium nitrate (discontinued operation).

The breakdown and comparison of our revenue by the above product types and geographical segments between 3Q2018 and 3Q2017 and between 9-month period ended 31 December 2017 ("9M2018") and the 9-month period ended 31 December 2016 ("9M2017") are as follows:

<u>Business Segments</u>	3Q2018		3Q2017		% change
	RMB'000	%	RMB'000	%	
<u>Continuing operations</u>					
Explosives devices	15,251	37.0	8,670	22.6	75.9
Industrial fuse and initiating explosive devices	13,290	32.2	15,157	39.5	(12.3)
Industrial detonators	12,688	30.8	14,299	37.3	(11.3)
Others ⁽¹⁾	3	-	234	0.6	(98.7)
Total continuing operations	41,232	100.0	38,360	100.0	7.5
<u>Discontinued operation</u>					
Ammonium Nitrate	-	-	-	-	-
Total discontinued operation	-	-	-	-	-
Consolidated revenue	41,232	100.0	38,360	100.0	7.5
<u>Geographic Segments</u>					
<u>Continuing operations</u>					
Within PRC	31,168	75.6	29,782	77.6	4.7
Outside PRC					
Sales through export distributors ⁽²⁾	-	-	978	2.6	N.M.
Australia	10,064	24.4	7,600	19.8	32.4
	10,064	24.4	8,578	22.4	17.3
Total continuing operations	41,232	100.0	38,360	100.0	7.5
<u>Discontinued operation</u>					
Within PRC	-	-	-	-	-
Total discontinued operation	-	-	-	-	-
Consolidated revenue	41,232	100.0	38,360	100.0	7.5

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)

<u>Business Segments</u>	9M2018		9M2017		% change
	RMB'000	%	RMB'000	%	
<u>Continuing operations</u>					
Explosives devices	47,110	34.1	16,928	15.9	178.3
Industrial fuse and initiating explosive devices	45,111	32.6	49,807	46.6	(9.4)
Industrial detonators	45,846	33.1	39,393	36.9	16.4
Others ⁽¹⁾	237	0.2	523	0.5	(54.7)
Total continuing operations	138,304	100.0	106,651	99.9	29.7
<u>Discontinued operation</u>					
Ammonium Nitrate	-	-	121	0.1	N.M.
Total discontinued operation	-	-	121	0.1	N.M.
Consolidated revenue	138,304	100.0	106,772	100.0	29.5
<u>Geographic Segments</u>					
<u>Continuing operations</u>					
Within PRC	101,162	73.1	91,628	85.9	10.4
<u>Outside PRC</u>					
Sales through export distributors ⁽²⁾	4,315	3.1	1,085	1.0	297.7
Australia	32,827	23.8	13,187	12.4	148.9
Others	-	-	751	0.7	N.M.
	37,142	26.9	15,023	14.1	147.2
Total continuing operations	138,304	100.0	106,651	99.9	29.7
<u>Discontinued operation</u>					
Within PRC	-	-	121	0.1	N.M.
Total discontinued operation	-	-	121	0.1	N.M.
Consolidated revenue	138,304	100.0	106,772	100.0	29.5

Notes :

- (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**

During 3Q2018, sales within PRC increased by approximately RMB 1.4 million or 4.7% from RMB 29.8 million in 3Q2017 to RMB 31.2 million in 3Q2018. For 9M2018, sales within PRC increased by approximately RMB 9.5 million or 10.4% from RMB 91.6 million in 9M2017 to RMB 101.2 million in 9M2018.

The increase in sales within PRC during 3Q2018 and 9M2018 were mainly attributed to higher PRC sales of boosters which increased by approximately RMB 4.1 million or 384.7% and RMB 9.1 million or 313.9% respectively, but was partially offset by the decrease in PRC sales of industrial fuse and initiating explosive devices and industrial detonators. The increased PRC sales of boosters were due to higher production capacity of boosters as the Group's second automated boosters production line commenced production in April 2017.

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 the current quarter. During 9M2018, sales through export distributors increased by RMB 3.2 million or 297.7%, mainly due to the commencement of the second automated boosters production line in April 2017.

c) Sales to Australia

During 3Q2018 and 9M2018, sales to Australia increased significantly by approximately RMB 2.5 million or 32.4% and RMB 19.6 million or 148.9% respectively as the exports of our boosters increased with our production resuming on 26 May 2016 and our second automated boosters production line commencing production in April 2017.

d) Sales to other countries

There was no sales to other countries during 3Q2018. During 9M2017, sales to other countries amounted to RMB 751,000.

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 3Q2018, the Group's gross profit margin dipped slightly from 16.6% to 14.3% mainly due to lower average selling prices for our products for the current quarter under review. However, during 9M2018, the Group's gross profit margin increased to 20.0% from 12.9% mainly due to the normalisation of the Group's production and sales activities during the current period under review.

Interest income / (Finance costs)

For 3Q2018 and 9M2018, interest income decreased by approximately RMB 2,000 and RMB 7,000, respectively, mainly due to lower average bank deposits during the periods under review.

For 3Q2018, finance costs remained relatively unchanged at RMB 966,000. For 9M2018, finance costs decreased by approximately RMB 275,000 or 9.7%, mainly due to lower average bank loans for the Group during 1Q2018 as mentioned in the first quarter results announcement.

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)**

Other gains / (Other losses)

For 3Q2018, other gains relate to reversal of allowance for impairment on trade receivables of RMB 105,000, gain on disposal of property, plant and equipment of approximately RMB 91,000 and government grants of RMB 539,000. For 3Q2017, other gains relate to reversal of allowance for impairment on trade receivables of RMB 63,000, gain on disposal of property, plant and equipment of RMB 240,000 and government grants of RMB 128,000.

For 9M2018, other gains relate to reversal of allowance for impairment on trade receivables of RMB 280,000, gain on disposal of property, plant and equipment of approximately RMB 411,000 and government grants of RMB 757,000. For 9M2017, other gains relate to reversal of allowance for impairment on trade receivables of RMB 452,000, gain on disposal of property, plant and equipment of approximately of approximately RMB 247,000 and government grants of RMB 647,000.

For 3Q2018, other losses relate to foreign exchange loss of RMB 402,000 and inventories written-off of RMB 58,000. For 3Q2017, other losses relate to allowance for impairment on trade receivables of approximately RMB 3.6 million and foreign exchange adjustment loss of RMB 286,000.

For 9M2018, other losses relate to foreign exchange loss of RMB 551,000 and inventories written-off of RMB 58,000. For 9M2017, other losses relate to allowance for impairment on trade receivables of approximately RMB 3.6 million and foreign exchange adjustment loss of RMB 486,000.

Foreign exchange adjustment gain/(losses) arose mainly from foreign exchange rate fluctuation among Renminbi (RMB), United States Dollar (US\$) and Singapore Dollars (S\$). Government grants relate to a grant for certain plant and equipment which will be amortised over 3 years and other ad hoc government grants for various purposes including safety awareness.

Allowance for impairment on trade receivables was based on the management's assessment on the Group's individual trade receivable as at the end of the period under review, in accordance to Singapore Financial Reporting Standards. The impairment was made on those individual long outstanding and slow-moving trade receivables during the assessment and was mainly attributed to the slowdown in China's economic growth, which directly affected the coal and iron-ore mining industries during the last financial period. An assessment was made for the current financial period under review and the management is of the view that no further allowance for impairment on trade receivables is necessary.

A review on the inventories and property, plant and equipment was carried out as of 31 December and items of obsolescence were written-off or disposed-off accordingly.

Operating expenses

Distribution costs for 3Q2018 and 9M2018 increased in line with the increase in revenue for 3Q2018 and 9M2018, respectively. The Group incurred higher freight and port charges due to increased export sales during the current periods under review.

Administrative expenses for 3Q2018 and 9M2018 remained relatively unchanged.

There was no material fluctuation for depreciation and amortisation expenses.

Income tax expenses

The income tax expenses for 3Q2018 and 9M2018 were mainly related to the provision of withholding tax for undistributed profits of the subsidiary to the Group as well as deferred tax adjustment for the period.

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)**

Statement of Financial Position

Property, plant and equipment decreased by approximately RMB 7.0 million, mainly due to the depreciation charged for the current period under review of approximately RMB 13.6 million, which was partially offset by the acquisition of property, plant and equipment of approximately RMB 6.7 million.

Other assets, non-current relate to the Group's land use rights, which increased by approximately RMB 5.4 million due to the addition to land use rights for the Group for warehousing purposes, partially offset by the amortisation charges during the current period under review. Addition to the land use rights were previously paid during FY2016 and reflected as prepayment for land use rights as at 31 March 2017.

Deferred tax assets relate mainly to the deferred tax differences for the allowance for impairment on trade and other receivables, provision for safety expenses and deferred tax on tax losses incurred.

Inventories, trade and other receivables, other assets and cash and cash equivalents, represented approximately 21.8%, 30.9%, 5.4% and 41.9% respectively of our total current assets as at 31 December 2017.

Inventories increased by approximately RMB 7.1 million or 20.1% to RMB 42.4 million as at 31 December 2017, as compared to RMB 35.4 million as at 31 March 2017. The increase in inventories was mainly due to higher level of finished goods at the 31 December 2017 that was due for shipment in January 2018.

During the current period under review, trade and other receivables decreased slightly by approximately RMB 1.1 million or 1.8% to RMB 60.1 million as at 31 December 2017.

Other assets, current comprising the Group's prepayments, decreased by approximately RMB 9.9 million or 48.7% to RMB 10.4 million as at 31 December 2017. The decrease is mainly due to the transfer of prepayment for land use rights to the Group's land use rights as mentioned above under other assets, non-current.

As at 31 December 2017, our current liabilities comprised of trade and other payables of approximately RMB 73.9 million, other current financial liabilities of approximately RMB 59.7 million and other liabilities of RMB 3.2 million. Non-current liabilities comprised of deferred tax liabilities of RMB 2.1 million.

Trade and other payables increased by approximately RMB 6.4 million mainly due to the higher levels of production activities and operations during the current period under review.

As at 31 December 2017, other current financial liabilities of RMB 59.7 million relates to the secured bank loans of Yinguang Technology.

As at 31 December 2017, other liabilities of RMB 3.2 million relate to the Group's provision for safety expenses, advances from customers and a deferred government grant. The increase was mainly due to more advances from customers and higher provision for safety expenses, partially offset by the utilisation of deferred government grant.

Deferred tax liabilities of RMB 2.1 million relate to the deferred tax liabilities for the withholding tax on the dividend payable by our subsidiary in China.

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 3Q2018, the Group generated net cash from operating activities of approximately RMB 4.8 million, while net cash used in investing activities and financing activities of approximately RMB 3.6 million and RMB 1.0 million, respectively.

For 9M2018, the Group generated net cash from operating activities of approximately RMB 6.7 million, while net cash used in investing and financing activities of RMB 5.9 million and RMB 2.6 million, respectively.

The net cash generated from operating activities for 3Q2018 was mainly due to the increase in cash from trade and other receivables, partially offset mainly from increase in inventories. The net cash generated from operating activities for 9M2018 was mainly due to higher trade and other payables due to higher levels of production activities.

The net cash used in investing activities of approximately RMB 3.6 million and RMB 5.9 million during 3Q2018 and 9M2018, respectively were mainly due to the purchase of property, plant and equipment, partially offset by the proceeds from the disposal of property, plant and equipment and interest received.

The net cash used in financing activities during 3Q2018 and 9M2018 were mainly due to the payment of interest expenses.

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

The current third quarter results for the 3-months period ended 31 December 2017 are in line with the Company's commentary as disclosed under paragraph 10 of the second quarter results announcement for the financial period ended 30 September 2017.

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.**

Update on our boosters production facilities

As previously announced, Yinguang Technology's second automated boosters production line has successfully passed the relevant authority's inspection and was approved for trial production during April 2017. However, for safety measures and precautions, the management is gradually scaling up the production capabilities of this second automated boosters production line.

As a result of the cessation of the two manual boosters production lines during FY2017, our revenue and profitability will continue to be affected, however, with the commencement of the second automated boosters production line, the impact should be mitigated going forward, barring any unforeseen circumstances.

- 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)**

Mergers and Acquisitions

The PRC government has since 2017 begun to rationalise the commercial explosives industry and encourage explosives companies to merge and consolidate their business operations. In line with this policy and to meet the various requirements of the MTP Exit Criteria under Rule 1314(2) of the SGX-ST's Listing Manual, the Group is actively exploring merger and acquisition opportunities in the PRC. The Company will make the appropriate announcements as and when there is any material development with respect to any potential material acquisition.

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. 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)	
		3Q2018	3Q2017	3Q2018	3Q2017
Name of interested person	Nature	RMB'000	RMB'000	RMB'000	RMB'000
Dyno Nobel ⁽¹⁾	Sales of commercial explosives	-	-	-	2,037
Wulian Hanyue Blasting Services Co., Ltd ⁽²⁾	Sales of commercial explosives	-	1,914	2,462	-
		9M2018	9M2017	9M2018	9M2017
Dyno Nobel ⁽¹⁾	Sales of commercial explosives	-	-	7,548	2,706
Shandong Yinguang Security Services Co., Ltd ⁽²⁾	Provision of security services	6,500	6,500	-	-
Wulian Hanyue Blasting Services Co., Ltd ⁽²⁾	Sales of commercial explosives	5,060	4,376	2,735	-

Footnotes:

⁽¹⁾ The relevant general mandate was approved at the Extraordinary General Meeting held on 10 November 2011 and was updated and approved at the Annual General Meeting held on 31 July 2017.

⁽²⁾ The relevant general mandate was approved at the Extraordinary General Meeting held on 31 July 2017, thus only transactions after 31 July 2017 will be considered under general mandate.

14. Confirmation that the issuer has procured undertakings from all its directors and executive officers (in the format set out in Appendix 7.7) under Rule 720(1).

The Company hereby confirms that it has procured undertakings from all its directors and executive officers under Rule 720(1) of the Listing Manual.

15. 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 3rd quarter financial statements set out above to be false or misleading in any material aspect.

For and On behalf of the Board of Directors

Bao Hongwei
Managing Director

Sun Bowen
Director

**BY ORDER OF THE BOARD
BAO HONGWEI
MANAGING DIRECTOR
13 FEBRUARY 2018**