



## Fabchem China Limited

Company registration number : 200413128G

Financial Statements for the Third Quarter ended 31 December 2008 (“3Q2009”)

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

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

	Group			Group		
	3 months from 1 Oct 2008 to 31 Dec 2008 RMB'000	3 months from 1 Oct 2007 to 31 Dec 2007 RMB'000	Increase/ (Decrease)  %	9 months from 1 Apr 2008 to 31 Dec 2008 RMB'000	9 months from 1 Apr 2007 to 31 Dec 2007 RMB'000	Increase/ (Decrease)  %
<b>Revenue</b>	75,773	59,815	26.7	147,217	157,619	(6.6)
Cost of sales	(47,098)	(33,920)	38.9	(89,557)	(90,980)	(1.6)
<b>Gross profit</b>	28,675	25,895	10.7	57,660	66,639	(13.5)
<b>Other Items of Income</b>						
Interest income	74	164	(54.9)	218	192	13.5
Other credits – Note (i)	139	91	52.7	394	124	217.7
<b>Other Items of Expense</b>						
Distribution costs	(4,820)	(2,648)	82.0	(9,518)	(6,757)	40.9
Administrative expenses	(6,637)	(6,485)	2.3	(16,218)	(16,188)	0.2
Financial expense	(215)	(64)	235.9	(230)	(83)	177.1
Other charges	-	-	-	-	-	-
<b>Profit before income tax</b>	17,216	16,953	1.6	32,306	43,927	(26.5)
Income tax expense	(2,875)	(3,400)	(15.4)	(5,347)	(8,269)	(35.3)
<b>Net profit attributable to shareholders</b>	14,341	13,553	5.8	26,959	35,658	(24.4)
<b>Note (i) – Other credits</b>						
Foreign exchange adjustment gain	139	91	52.7	86	123	(30.1)
Gain on sale of fixed assets	-	-	-	8	1	700.0
Grant from Ministry of Finance of Fei County	-	-	-	300	-	N.M.
	139	91	52.7	394	124	217.7

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

Amortisation of land use rights	(36)	-	N.M.	(36)	-	N.M.
Interest income from bank deposits	74	164	(54.9)	218	192	13.5
Interest expense	(215)	(64)	235.9	(230)	(83)	177.1
Depreciation expenses	(958)	(638)	50.2	(2,300)	(2,023)	13.7
Foreign exchange adjustment gain	139	91	52.7	86	123	(30.1)
Gain on sale of fixed assets	-	-	-	8	1	700.0
Write-off for stocks obsolescence	-	-	-	-	(260)	N.M.

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	
	31 December 2008 RMB'000	31 March 2008 RMB'000	31 December 2008 RMB'000	31 March 2008 RMB'000
<b>ASSETS</b>				
<b>Non-current assets :</b>				
Property, plant and equipment	117,156	46,624	413	481
Land use rights	10,163	-	-	-
Investment in subsidiary	-	-	106,531	114,682
<b>Total non-current assets</b>	<b>127,319</b>	<b>46,624</b>	<b>106,944</b>	<b>115,163</b>
<b>Current assets :</b>				
Inventories	41,422	22,835	-	-
Trade and other receivables (Note 1)	121,634	138,170	16,406	4,553
Other assets	64,001	8,927	101	525
Cash and cash equivalents	113,694	108,928	139	528
<b>Total current assets</b>	<b>340,751</b>	<b>278,860</b>	<b>16,646</b>	<b>5,606</b>
<b>Total assets</b>	<b>468,070</b>	<b>325,484</b>	<b>123,590</b>	<b>120,769</b>
<b>EQUITY AND LIABILITIES</b>				
<b>Capital and reserves :</b>				
Share capital	116,849	116,849	116,849	116,849
Retained earnings/(Accumulated losses)	157,150	133,529	9,220	(4,000)
Other reserves	27,160	24,100	(6,316)	2,114
<b>Total equity</b>	<b>301,159</b>	<b>274,478</b>	<b>119,753</b>	<b>114,963</b>
<b>Non-Current liabilities :</b>				
Long-term loan	27,167	-	-	-
Other financial liabilities	256	331	256	331
<b>Total non-current liabilities</b>	<b>27,423</b>	<b>331</b>	<b>256</b>	<b>331</b>
<b>Current liabilities :</b>				
Income tax payable	4,961	5,455	-	-
Short-term bank loan	21,000	-	-	-
Trade and other payables (Note 2)	111,891	43,618	3,513	5,405
Other financial liabilities	68	70	68	70
Other liabilities	1,568	1,532	-	-
<b>Total current liabilities</b>	<b>139,488</b>	<b>50,675</b>	<b>3,581</b>	<b>5,475</b>
<b>Total liabilities</b>	<b>166,911</b>	<b>51,006</b>	<b>3,837</b>	<b>5,806</b>
<b>Total liabilities and equity</b>	<b>468,070</b>	<b>325,484</b>	<b>123,590</b>	<b>120,769</b>
<b>Note 1</b>				
Trade receivables	120,205	136,318	-	-
Amount receivable from subsidiary	-	-	16,406	4,553
Other receivables	1,429	1,852	-	-
<b>Trade and other receivables</b>	<b>121,634</b>	<b>138,170</b>	<b>16,406</b>	<b>4,553</b>
<b>Note 2</b>				
Trade payables and accruals	72,001	34,545	3,442	5,234
Other payables	39,890	9,073	71	171
<b>Trade and other payables</b>	<b>111,891</b>	<b>43,618</b>	<b>3,513</b>	<b>5,405</b>

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

**Amount repayable in one year or less, or on demand**

**(RMB'000)**

<b>31 December 2008</b>		<b>31 March 2008</b>	
<b>Secured</b>	<b>Unsecured</b>	<b>Secured</b>	<b>Unsecured</b>
21,068	-	70	-

**Amount repayable after one year**

**(RMB'000)**

<b>31 December 2008</b>		<b>31 March 2008</b>	
<b>Secured</b>	<b>Unsecured</b>	<b>Secured</b>	<b>Unsecured</b>
256	27,167	331	-

**Details of any collateral**

As at 31 December 2008, the Group has secured borrowings comprising a 7 years finance lease of approximately RMB 324,000 for the purchase of a motor vehicle and aggregate short-term bank loans of RMB 21 million.

The finance lease is secured against the motor vehicle with net book value of approximately RMB 392,000, and bears effective interest rate of 6.61% per annum.

The bank loans are secured using Hebei Yinguang Chemical Co., Ltd ("Hebei Yinguang")'s land and buildings with net book value of approximately RMB 11.4 million. Portion of the bank loans are secured 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 short-term bank loans' interest rates ranged between 6.93% and 8.217%.

- 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		Group	
	3 months from 1 Oct 2008 to 31 Dec 2008 RMB'000	3 months from 1 Oct 2007 to 31 Dec 2007 RMB'000	9 months from 1 Apr 2008 to 31 Dec 2008 RMB'000	9 months from 1 Apr 2007 to 31 Dec 2007 RMB'000
<b>Cash flows from operating activities</b>				
Profit before income tax	17,216	16,953	32,306	43,927
Adjustments for :				
Amortisation of land use rights	36	-	36	-
Depreciation expense	958	638	2,300	2,023
Gain on sale of fixed assets	-	-	(8)	(1)
Interest income	(74)	(164)	(218)	(192)
Interest expenses	215	64	230	83
Write-off for stocks obsolescence	-	-	-	260
Operating profit before working capital changes	18,351	17,491	34,646	46,100
Trade and other receivables	(12,318)	(14,297)	33,153	(14,861)
Other assets	(27,626)	(6,299)	(45,056)	(10,370)
Inventories	1,738	2,946	(13,781)	(7,464)
Trade and other payables	10,525	3,585	2,754	2,837
Other liabilities	(372)	1,358	(288)	1,413
Cash generated from operations	(9,702)	4,784	11,428	17,655
Income tax paid	(1,187)	(3,111)	(6,658)	(8,129)
<b>Net cash (used in) / from operating activities</b>	<b>(10,889)</b>	<b>1,673</b>	<b>4,770</b>	<b>9,526</b>
<b>Cash flows from investing activities</b>				
Cash flows from acquisition of subsidiary	27,970	-	27,970	-
Proceeds from sale of fixed assets	-	-	38	13
Purchase of property, plant and equipment	(10,335)	(5,260)	(27,663)	(16,739)
Interest received	74	164	218	192
<b>Net cash from / (used in) investing activities</b>	<b>17,709</b>	<b>(5,096)</b>	<b>563</b>	<b>(16,534)</b>
<b>Cash flows from financing activities</b>				
Dividend paid	-	-	-	(6,154)
Interest paid	(215)	(64)	(230)	(83)
Repayment of finance lease obligation	(21)	(17)	(77)	(54)
<b>Net cash used in financing activities</b>	<b>(236)</b>	<b>(81)</b>	<b>(307)</b>	<b>(6,291)</b>
Net effect of exchange rate changes in consolidating foreign currency financial statements	(190)	(119)	(260)	(163)
Net increase / (decrease) in cash	6,394	(3,623)	4,766	(13,462)
Cash at beginning of the period	107,300	119,169	108,928	129,008
<b>Cash at end of the period</b>	<b>113,694</b>	<b>115,546</b>	<b>113,694</b>	<b>115,546</b>

**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
<b>Group (RMB'000)</b>					
Balance at 1 April 2008	116,849	23,526	574	133,529	274,478
<u>Items of income and expense recognised directly in equity:</u>					
Foreign currency translation difference not recognised in income statement	-	-	(83)	-	(83)
Net income recognised directly in equity	-	-	(83)	-	(83)
Net profit for the period	-	-	-	12,618	12,618
Appropriation for the period	-	1,765	-	(1,765)	-
Total recognised income and expense for the period	-	1,765	(83)	10,853	12,535
Balance at 30 September 2008	116,849	25,291	491	144,382	287,013
<u>Items of income and expense recognised directly in equity:</u>					
Foreign currency translation difference not recognised in income statement	-	-	(195)	-	(195)
Net income recognised directly in equity	-	-	(195)	-	(195)
Net profit for the period	-	-	-	14,341	14,341
Appropriation for the period	-	1,573	-	(1,573)	-
Total recognised income and expense for the period	-	1,573	(195)	12,768	14,146
Balance at 31 December 2008	116,849	26,864	296	157,150	301,159
Balance at 1 April 2007	116,849	14,870	712	88,031	220,462
<u>Items of income and expense recognised directly in equity:</u>					
Foreign currency translation difference not recognised in income statement	-	-	(38)	-	(38)
Net income recognised directly in equity	-	-	(38)	-	(38)
Net profit for the period	-	-	-	22,105	22,105
Appropriation for the period	-	2,774	-	(2,774)	-
Total recognised income and expense for the period	-	2,774	(38)	19,331	22,067
<u>Other movements in equity</u>					
Dividend paid	-	-	-	(6,154)	(6,154)
Balance at 30 September 2007	116,849	17,644	674	101,208	236,375
<u>Items of income and expense recognised directly in equity:</u>					
Foreign currency translation difference not recognised in income statement	-	-	(119)	-	(119)
Net income recognised directly in equity	-	-	(119)	-	(119)
Net profit for the period	-	-	-	13,553	13,553
Appropriation for the period	-	1,278	-	(1,278)	-
Total recognised income and expense for the period	-	1,278	(119)	12,275	13,434
Balance at 31 December 2007	116,849	18,922	555	113,483	248,809

(a) (a)

**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. (Cont'd)**

	Share capital	Foreign exchange translation reserve	Retained earnings/ (Accumulated losses)	Total
<b>Company (RMB'000)</b>				
Balance at 1 April 2008	116,849	2,114	(4,000)	114,963
<u>Items of income and expense recognised directly in equity:</u>				
Foreign currency translation difference not recognised in income statement	-	(7,063)	-	(7,063)
Net income recognised directly in equity	-	(7,063)	-	(7,063)
Net loss for the period	-	-	15,383	15,383
Total recognised income and expense for the period	-	(7,063)	15,383	8,320
Balance at 30 September 2008	116,849	(4,949)	11,383	123,283
<u>Items of income and expense recognised directly in equity:</u>				
Foreign currency translation difference not recognised in income statement	-	(1,367)	-	(1,367)
Net income recognised directly in equity	-	(1,367)	-	(1,367)
Net profit for the period	-	-	(2,163)	(2,163)
Total recognised income and expense for the period	-	(1,367)	(2,163)	(3,530)
Balance at 31 December 2008	116,849	(6,316)	9,220	119,753
Balance at 1 April 2007	116,849	2,599	(6,818)	112,630
<u>Items of income and expense recognised directly in equity:</u>				
Foreign currency translation difference not recognised in income statement	-	(936)	-	(936)
Net income recognised directly in equity	-	(936)	-	(936)
Net profit for the period	-	-	4,845	4,845
Total recognised income and expense for the period	-	(936)	4,845	3,909
<u>Other movements in equity</u>				
Dividend paid	-	-	(6,154)	(6,154)
Balance at 30 September 2007	116,849	1,663	(8,127)	110,385
<u>Items of income and expense recognised directly in equity:</u>				
Foreign currency translation difference	-	(207)	-	(207)
Net income recognised directly in equity	-	(207)	-	(207)
Net loss for the period	-	-	7,334	7,334
Total recognised income and expense for the period	-	(207)	7,334	7,127
Balance at 31 December 2007	116,849	1,456	(793)	117,512

(a)

(a) Not available for distribution as cash dividends

**1(d)(ii) Details of any changes in the company's share capital arising from rights issue, bonus issue, share buy-backs, exercise of share options or warrants, conversion of other issues of equity securities, issue of shares for cash or as consideration for acquisition or for any other purpose since the end of the previous period reported on. State also the number of shares that may be issued on conversion of all the outstanding convertibles as 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.**

	<b>Group</b>	
	<b>31 December 2008</b>	<b>31 March 2008</b>
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 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 2008	3 months ended 31 Dec 2007	9 months ended 31 Dec 2008	9 months ended 31 Dec 2007
	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	6.13	5.79	11.52	15.24
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 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	
	31 Dec 2008	31 March 2008	31 Dec 2008	31 March 2008
	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	128.70	117.30	51.18	49.13
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.

**Revenue**

Our products can be categorised mainly into (a) explosive devices such as boosters, seismic charges and tube charges; (b) industrial fuse and initiating explosive devices such as detonating cords and non-electric tubes; (c) industrial detonators such as non-electric detonators and piston non-electric detonators; and (d) ammonium nitrate. The breakdown of our revenue by the above product types and geographical segments for the 3<sup>rd</sup> quarter ended 31 December 2007 ("3Q2008") and 31 December 2008 ("3Q2009") and for the 9 months ended 31 December 2007 ("9M2008") and 31 December 2008 ("9M2009") are as follows:

	3Q2009		3Q2008		% change
	RMB'000	%	RMB'000	%	
Explosives devices	28,379	37.4	25,293	42.3	12.2
Industrial fuse and initiating explosive devices	21,140	27.9	18,769	31.4	12.6
Industrial detonators	17,357	22.9	15,585	26.0	11.4
Ammonium Nitrate	8,460	11.2	-	-	N.M.
Others <sup>(1)</sup>	437	0.6	168	0.3	160.1
	<b>75,773</b>	<b>100.0</b>	<b>59,815</b>	<b>100.0</b>	<b>26.7</b>

	3Q2009		3Q2008		% change
	RMB'000	%	RMB'000	%	
Within PRC	52,240	68.9	40,361	67.5	29.4
Outside PRC					
Sales through export distributors <sup>(2)</sup>	792	1.1	9,289	15.5	(91.5)
Australia	17,067	22.5	4,607	7.7	270.5
South Africa	4,153	5.5	3,790	6.3	9.6
Others	1,521	2.0	1,768	3.0	(14.0)
	<b>23,533</b>	<b>31.1</b>	<b>19,454</b>	<b>32.5</b>	<b>21.0</b>
	<b>75,773</b>	<b>100.0</b>	<b>59,815</b>	<b>100.0</b>	<b>26.7</b>

	9M2009		9M2008		% change
	RMB'000	%	RMB'000	%	
Explosives devices	45,340	30.8	64,525	40.9	(29.7)
Industrial fuse and initiating explosive devices	56,180	38.2	52,115	33.1	7.8
Industrial detonators	36,157	24.6	40,409	25.6	(10.5)
Ammonium Nitrate	8,460	5.7	-	-	N.M.
Others <sup>(1)</sup>	1,080	0.7	570	0.4	89.5
	<b>147,217</b>	<b>100.0</b>	<b>157,619</b>	<b>100.0</b>	<b>(6.6)</b>

	9M2009		9M2008		% change
	RMB'000	%	RMB'000	%	
Within PRC	115,916	78.7	105,339	66.8	10.0
Outside PRC					
Sales through export distributors <sup>(2)</sup>	4,215	2.9	13,957	8.9	(69.8)
Australia	20,219	13.7	17,069	10.8	18.5
South Africa	4,153	2.8	15,083	9.6	(72.5)
Others	2,714	1.9	6,171	3.9	(56.0)
	<b>31,301</b>	<b>21.3</b>	<b>52,280</b>	<b>33.2</b>	<b>(40.1)</b>
	<b>147,217</b>	<b>100.0</b>	<b>157,619</b>	<b>100.0</b>	<b>(6.6)</b>

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.

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)**

The revenue for the 3<sup>rd</sup> quarter ended 31 December 2008 increased by approximately RMB 16.0 million or 26.7% from 3Q2008's RMB 59.8 million to 3Q2009's RMB 75.8 million, mainly due to the increase in local PRC sales and sales to Australia

The revenue for the 9 months ended 31 December 2008 decreased by approximately RMB 10.4 million or 6.6% mainly due to the disruption during the Beijing Olympics period.

Our acquisition of Hebei Yinguang Chemical Co. ("Hebei Yinguang"), Ltd was completed on 21 October 2008 and thus, the results of Hebei Yinguang are consolidated into our Group subsequent to the completion.

a) **Sales within PRC**

Sales within PRC increased by approximately RMB111.9 million or 29.4% during 3Q2009 as compared to 3Q2008. The increase is mainly due to the sales of ammonium nitrate by our newly acquired subsidiary, Hebei Yinguang, of approximately RMB 8.5 million. Local PRC sales of our piston non-electric detonators also increased by approximately RMB 4.5 million or 38.1% during the current third quarter. Local PRC sale of boosters decreased by approximately RMB 3.0 million or 36.8% during the current quarter.

For 9M2009, sales within PRC increased by approximately RMB 10.6 million or 10.0%. This is mainly due to the sales of ammonium nitrate and the increase in local PRC sale of piston non-electric detonators by approximately RMB 10.1 million or 40.2%, and industrial fuse and initiating explosive devices by approximately RMB 3.5 million or 7.3%. However, local PRC sale of explosives devices decreased by approximately RMB 12.0 million or 38.9%. The decrease is mainly caused by the disruption during the Beijing Olympics period.

b) **Sales to Australia**

Sales to Australia increased by RMB 12.5 million or 270.5% during 3Q2009 as compared to 3Q2008. The increase is mainly due to the re-scheduled shipments to Australia from 2Q2009 to 3Q2009. These shipments were disrupted during the Beijing Olympics period.

For 9M2009, sales to Australia increased by approximately RMB 3.2 million or 18.5% due to the customers' shipping requirements for delivery of goods.

c) **Sales to South Africa**

Sales to South Africa resumed during the 3Q2009 with sales revenue of approximately RMB 4.2 million.

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

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

#### **Gross profit margin**

Gross profit margin deteriorates by approximately 5.5 percentage points from 3Q2008's 43.3% to 3Q2009's 37.8%. For 9M2008, gross profit margin decreased by approximately 3.1 percentage points from 9M2008's 42.3% to 9M2009's 39.2%.

The decrease in our gross profit margin is mainly due to the lower gross profit margin for ammonium nitrate product as compared to our existing product range for commercial explosives. From the completion of our acquisition till 31 December 2008, ammonium nitrate's gross profit margin approximates 13.5%.

#### **Operating expenses**

For 3Q2009 and 9M2009, distribution costs increased by approximately RMB 2.2 million or 82.0% and RMB 2.8 million or 40.9% respectively. The increase is mainly due to raising costs like staff costs and petrol costs. The constantly high petrol costs in the PRC had caused our transportation and traveling expenses to increase tremendously as compared to the previous corresponding period.

For 3Q2009 and 9M2009, administrative expenses increased marginally by approximately RMB 0.2 million or 2.3% and RMB 0.03 million or 0.2% respectively.

#### **Other credits**

For 3Q2009, other credits relate to foreign exchange gain of approximately RMB 139,000. Foreign exchange gain arises due to exchange rate fluctuations between USD, RMB and SGD during the current period reported on.

#### **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.

The effective tax rate for 3Q2009 and 9M2009 was 16.7% (3Q2008 : 20.1%) and 16.6% (9M2008 : 18.8%). This is higher than the PRC concessionary tax rate of 12.5% (or 15% before 1 January 2008) due to 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 increased by approximately RMB 70.5 million mainly due to the consolidation of Hebei Yinguang's property, plant and equipment of approximately RMB 45.2 million. Payment for the construction costs for our 2 new production facilities, i.e. 3,000 tonnes boosters and 60 million units piston non-electric detonators also contributed to the increased in property, plant and equipment.

Land use rights relate to the land use rights of Hebei Yinguang for its manufacturing and office premises.

Inventories, trade and other receivables, other assets and cash and cash equivalents, represent approximately 12.1%, 35.7%, 18.8% and 33.4% of our total current assets as at 31 December 2008.

Inventories increased by approximately RMB 18.6 million from 31 March 2008's RMB 22.8 million to 31 December 2008's RMB 41.4 million. The increase was mainly due to the increase in raw materials and finished goods. Increase in finished goods is meant for planned delivery subsequent to 31 December 2008.

Trade and other receivables decreased by approximately RMB 16.5 million mainly due to the improved recoverability during the current financial period reported on.

Other assets comprise the Group's prepayments. Other assets increased by approximately RMB 55.1 million mainly due to the increase in prepayments for certain machineries for our new production facilities and prepayments for our raw materials.

Long-term loan of approximately RMB 27.2 million relates to the amount owing from Hebei Yinguang to Linxi County Nitrogenous Fertilizer Co., Ltd. Details of which are disclosed in our Circular dated 29 August 2008.

As at 31 December 2008, our current liabilities comprise income tax payable of approximately RMB 5.0 million, short-term bank loan of RMB 21 million, trade and other payables of approximately RMB 111.9 million, other liabilities of approximately RMB 1.6 million and a finance lease obligation of approximately RMB 68,000. Non-current finance lease obligation approximates RMB 256,000.

Short-term bank loans of RMB 21 million belongs to Hebei Yinguang for its construction of the 40,000 tonnes ammonium nitrate plant. The RMB 21 million short-term bank loans are secured by Hebei Yinguang's land and buildings, corporate guarantee by Shandong Yinguang Chemical Group Co., Ltd, the former holding company of Hebei Yinguang, and guarantee by Ministry of Finance of Linxi County.

Trade and other payables increased by approximately RMB 68.3 million mainly due to the acquisition of Hebei Yinguang's trade and other payables of approximately RMB 65.5 million.

Total finance lease obligation of approximately RMB 324,000 consists of a 7 years finance lease secured against a motor vehicle with net book value of approximately RMB 392,000 as at 31 December 2008 and 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 3Q2009, the Group has net cash used in operating activities of approximately RMB 10.9 million as compared to a RMB 1.7 million cash inflows for 3Q2008. Net cash used in operating activities for 3Q2009 is mainly due to prepayment for machineries for the new expansion projects and prepayments for our raw materials.

For 9M2009, the Group has net cash generated from operating activities of approximately RMB 4.8 million as compared to a RMB 9.5 million for the previous corresponding period. The decrease is mainly due to prepayment for construction and machineries costs for the new expansion projects and prepayments for our raw materials.

For 3Q2009 and 9M2009, our net cash from investing activities is approximately RMB 17.7 million and RMB 0.6 million respectively. This is due to the net cash inflows from acquisition of Hebei Yinguang and partially offset by the purchase of plant and equipments for the construction of our new production facilities.

For 3Q2009 and 9M2009, our net cash used in financing activities of approximately RMB 0.2 million and RMB 0.3 million is due to the payment of interest and the repayment of finance lease obligations.

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.**

#### **Boosters, Detonators and Ammonium Nitrate facilities**

As mentioned in our second quarter announcement, Yinguang Technology had completed the construction of the 2 new production facilities, i.e. 3,000 tonnes boosters and 60 million units piston non-electric detonators. The board of directors is pleased to inform our Shareholders that the relevant authority had given the approval for Yinguang Technology to commence production for the new boosters and detonators facilities. Hebei Yinguang had also received the approval to commence production for the new 40,000 tonnes ammonium nitrate plant and the management expects to start its production during the last quarter of FY2009.

#### **Use of IPO proceeds**

For the 3 months ended 31 December 2008, the Group has utilised approximately RMB 0.8 million of the IPO proceeds for the acquisition of equipments and machineries for boosters and piston non-electric detonators. Total IPO proceeds utilised up till 31 December 2008 is approximately RMB 33.0 million.

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)**

Hebei Yinguang business update

The global recession had affected the demand for our ammonium nitrate and thus causing the selling prices of ammonium nitrate to unexpectedly dip significantly. With the lower selling prices and gross margins, Hebei Yinguang may experience undue stress on its profits for the coming months until the prices of ammonium nitrate recover.

Global economic conditions

With the worsening of global economic conditions, the board of directors remains cautious and will inform our shareholders immediately of any possible impact these economic conditions may have on the Group's 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 3<sup>rd</sup> 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  
11 FEBRUARY 2009**