



Fabchem China Limited

Company registration number : 200413128G

Financial Statements for the Second Quarter ended 30 September 2009 (“2Q2010”)

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 Jul 2009 to 30 Sept 2009 RMB'000	3 months from 1 Jul 2008 to 30 Sept 2008 RMB'000	Increase/ (Decrease) %	6 months from 1 Apr 2009 to 30 Sept 2009 RMB'000	6 months from 1 Apr 2008 to 30 Sept 2008 RMB'000	Increase/ (Decrease) %
Revenue	84,879	23,408	262.6	168,043	71,444	135.2
Cost of sales	(56,182)	(14,839)	278.6	(104,044)	(42,459)	145.0
Gross profit	28,697	8,569	234.9	63,999	28,985	120.8
Other Items of Income						
Interest income	55	72	(23.6)	113	144	(21.5)
Other credits – Note (i)	97	252	(61.5)	89	546	(83.7)
Other Items of Expense						
Distribution costs	(4,201)	(2,502)	67.9	(7,948)	(4,698)	69.2
Administrative expenses	(7,074)	(4,860)	45.6	(14,746)	(9,872)	49.4
Financial costs	(553)	(10)	5430.0	(851)	(15)	5573.3
Other charges– Note (ii)	-	-	-	(600)	-	N.M.
Profit before income tax	17,021	1,521	1019.1	40,056	15,090	165.4
Income tax expense	(6,185)	(471)	1213.2	(9,614)	(2,472)	288.9
Profit attributable to shareholders	10,836	1,050	932.0	30,442	12,618	141.3
Note (i) – Other Credits						
Foreign exchange adjustment gain	87	244	(64.3)	-	238	N.M.
Gain on sale of fixed assets	10	8	25.0	89	8	1012.5
Grant from Ministry of Finance of Fei County	-	-	-	-	300	N.M.
	97	252	(61.5)	89	546	(83.7)
Note (ii) – Other Charges						
Foreign exchange adjustment loss	-	-	-	(600)	-	N.M.
	-	-	-	(600)	-	N.M.

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

Amortisation expenses	(1,066)	-	N.M.	(1,328)	-	N.M.
Depreciation expenses	(3,627)	(688)	427.2	(6,054)	(1,342)	351.1
Foreign exchange adjustment gain / (loss)	87	244	(64.3)	(600)	238	(352.1)
Gain on sale of fixed assets	10	8	25.0	89	8	1012.5
Interest expense	(553)	(10)	5430.0	(851)	(15)	5573.3
Interest income from bank deposits	55	72	(23.6)	113	144	(21.5)

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 2009 to 30 Sept 2009 RMB'000	3 months from 1 Jul 2008 to 30 Sept 2008 RMB'000	Increase/(Decrease) %	6 months from 1 Apr 2009 to 30 Sept 2009 RMB'000	6 months from 1 Apr 2008 to 30 Sept 2008 RMB'000	Increase/(Decrease) %
Profit attributable to shareholders	10,836	1,050	932.0	30,442	12,618	141.3
Foreign currency translation difference	187	(104)	(279.8)	739	(83)	(990.4)
Total comprehensive income for the period	<u>11,023</u>	<u>946</u>	1065.2	<u>31,181</u>	<u>12,535</u>	148.8

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

	Group		Company	
	30 September 2009 RMB'000	31 March 2009 RMB'000	30 September 2009 RMB'000	31 March 2009 RMB'000
ASSETS				
Non-current assets :				
Property, plant and equipment	156,755	138,462	371	376
Goodwill on consolidation	31	20,001	-	-
Land use rights	50,342	45,026	-	-
Licenses	4,390	-	-	-
Customer relationships	3,444	-	-	-
Investment in subsidiary	-	-	108,695	101,176
Total non-current assets	214,962	203,489	109,066	101,552
Current assets :				
Inventories	44,703	47,001	-	-
Trade and other receivables (Note 1)	126,342	119,074	9,516	14,689
Other assets	26,525	27,500	248	97
Cash and cash equivalents	93,295	112,621	426	256
Total current assets	290,865	306,196	10,190	15,042
Total assets	505,827	509,685	119,256	116,594
Capital and reserves :				
Share capital	116,849	116,849	116,849	116,849
Retained earnings	190,749	163,859	2,532	8,494
Other reserves	32,048	27,757	(4,083)	(12,342)
Total equity	339,646	308,465	115,298	113,001
Non-Current liabilities :				
Deferred tax liabilities	6,201	-	-	-
Other financial liabilities	207	226	207	226
Total non-current liabilities	6,408	226	207	226
Current liabilities :				
Income tax payable	4,352	5,240	-	-
Trade and other payables (Note 2)	107,269	144,057	3,679	3,301
Other financial liabilities	72	66	72	66
Bank loans	20,000	23,000	-	-
Third party loan	25,350	26,622	-	-
Other liabilities	2,730	2,009	-	-
Total current liabilities	159,773	200,994	3,751	3,367
Total liabilities	166,181	201,220	3,958	3,593
Total liabilities and equity	505,827	509,685	119,256	116,594
Note 1				
Trade receivables	125,150	117,482	-	-
Dividend receivable from subsidiary	-	-	9,516	14,688
Other receivables	1,192	1,592	-	1
Total trade and other receivables	126,342	119,074	9,516	14,689
Note 2				
Trade payables and accruals	42,509	78,894	3,357	3,090
Other payables	64,760	65,163	322	211
Total trade and other payables	107,269	144,057	3,679	3,301

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 2009		31 March 2009	
Secured	Unsecured	Secured	Unsecured
10,072	35,350	8,066	41,622

Amount repayable after one year

(RMB'000)

30 September 2009		31 March 2009	
Secured	Unsecured	Secured	Unsecured
207	-	226	-

Details of any collateral

As at 30 September 2009, the Group has secured borrowings comprising a 7 years finance lease of approximately RMB 279,000 for the purchase of a motor vehicle and aggregate secured short-term bank loans of RMB 10 million. Unsecured borrowings relates to a loan from a third party of RMB 25.4 million and a short-term bank loan of RMB 10 million.

The finance lease is secured against the motor vehicle with net book value of approximately RMB 359,000, and bears effective interest rate of 6.61% per annum.

Secured short-term bank loans are secured using Hebei Yinguang Chemical Co., Ltd ("Hebei Yinguang")'s land and buildings with net book value of approximately RMB 18.2 million. The secured short-term bank loans' interest rate is 6.1065% per annum.

Unsecured borrowing of RMB 25.4 million relates to a loan from Linxi County Nitrogenous Fertilizer Co., Ltd. Portion of this loan has interest rate of 12% per annum. Unsecured short-term bank loan of RMB 10 million are guaranteed by corporate guarantee of Shandong Yinguang Chemical Group Co., Ltd, the former holding company of Hebei Yinguang. The unsecured short-term bank loans' interest rate is 6.93% per annum.

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

	Group		Group	
	3 months from 1 Jul 2009 to 30 Sept 2009 RMB'000	3 months from 1 Jul 2008 to 30 Sept 2008 RMB'000	6 months from 1 Apr 2009 to 30 Sept 2009 RMB'000	6 months from 1 Apr 2008 to 30 Sept 2008 RMB'000
Cash flows from operating activities				
Profit before income tax	17,021	1,521	40,056	15,090
Adjustments for :				
Amortisation expenses	1,066	-	1,328	-
Depreciation expense	3,627	688	6,054	1,342
Gain on sale of fixed assets	(10)	(8)	(89)	(8)
Interest income	(55)	(72)	(113)	(144)
Interest expenses	553	10	851	15
Net effect of exchange rate changes in translation of financial statements of Parent	160	(95)	712	(70)
Operating profit before working capital changes	22,362	2,044	48,799	16,225
Inventories	6,139	(11,263)	2,298	(15,519)
Trade and other receivables	(1,099)	33,703	(7,268)	45,471
Other assets	2,037	(5,041)	975	(17,430)
Trade and other payables	(3,668)	(7,099)	(36,788)	(7,771)
Other liabilities	665	150	721	84
Cash generated from operations	26,436	12,494	8,737	21,060
Income tax paid	(7,241)	(1,454)	(10,958)	(5,471)
Net cash from / (used in) operating activities	19,195	11,040	(2,221)	15,589
Cash flows from investing activities				
Proceeds from sale of property, plant and equipment	-	38	384	38
Purchase of property, plant and equipment	(8,049)	(6,362)	(12,466)	(17,328)
Interest received	55	72	113	144
Net cash used in investing activities	(7,994)	(6,252)	(11,969)	(17,146)
Cash flows from financing activities				
Repayment of finance lease obligation	(11)	(36)	(13)	(56)
Repayment of short-term bank loan	-	-	(3,000)	-
Repayment of third party loan	(443)	-	(1,272)	-
Interest paid	(553)	(10)	(851)	(15)
Net cash used in financing activities	(1,007)	(46)	(5,136)	(71)
Net increase/(decrease) in cash	10,194	4,742	(19,326)	(1,628)
Cash at beginning of the period	83,101	102,558	112,621	108,928
Cash at end of the period	93,295	107,300	93,295	107,300

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 2009	116,849	28,132	(375)	163,859	308,465
Appropriation for the period	-	1,817	-	(1,817)	-
Total comprehensive income for the period	-	-	552	19,606	20,158
Balance at 30 June 2009	116,849	29,949	177	181,648	328,623
Appropriation for the period	-	1,735	-	(1,735)	-
Total comprehensive income for the period	-	-	187	10,836	11,023
Balance at 30 September 2009	116,849	31,684	364	190,749	339,646
Balance at 1 April 2008	116,849	23,526	574	133,529	274,478
Appropriation for the period	-	1,410	-	(1,410)	-
Total comprehensive income for the period	-	-	21	11,568	11,589
Balance at 30 June 2008	116,849	24,936	595	143,687	286,067
Appropriation for the period	-	355	-	(355)	-
Total comprehensive income for the period	-	-	(104)	1,050	946
Balance at 30 September 2008	116,849	25,291	491	144,382	287,013

	Share capital	Foreign exchange translation reserve	Retained earnings/ (Accumulated losses)	Total
Company (RMB'000)				
Balance at 1 April 2009	116,849	(12,342)	8,494	113,001
Total comprehensive income/(loss) for the period	-	5,501	(3,435)	2,066
Balance at 30 June 2009	116,849	(6,841)	5,059	115,067
Total comprehensive income/(loss) for the period	-	2,758	(2,527)	231
Balance at 30 September 2009	116,849	(4,083)	2,532	115,298
Balance at 1 April 2008	116,849	2,114	(4,000)	114,963
Total comprehensive income/(loss) for the period	-	(968)	(2,528)	(3,496)
Balance at 30 June 2008	116,849	1,146	(6,528)	111,467
Total comprehensive income/(loss) for the period	-	(6,095)	17,911	11,816
Balance at 30 September 2008	116,849	(4,949)	11,383	123,283

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 2009	31 March 2009
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, except as disclosed in paragraph 5 below.

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.

With effect from 1 April 2009, the Group adopted the amended FRS 1 (2008) Presentation of Financial Statements.

Except as disclosed above, 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 2009	3 months ended 30 Sept 2008	6 months ended 30 Sept 2009	6 months ended 30 Sept 2008
	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	4.63	0.45	13.01	5.39
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 2009	31 March 2009	30 Sept 2009	31 March 2009
	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	145.15	131.82	49.27	48.29
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

Revenue for the 3-month period ended 30 September 2009 ("2Q2010") increased by approximately RMB 61.5 million or 262.6%, from RMB 23.4 million of the 3-month period ended 30 September 2008 ("2Q2009") to RMB 84.9 million in 2Q2010. 2Q2009's revenue was much lower due to the 2008 Beijing Olympics, whereby certain transportation and production restrictions affected our routine operations.

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

The breakdown and comparison of our revenue by the above product types and geographical segments between 2Q2010 and 2Q2009 and between 6M2010 and 6M2009 are as follows:

	2Q2010		2Q2009		% change
	RMB'000	%	RMB'000	%	
Explosives devices	21,399	25.2	3,375	14.4	534.0
Industrial fuse and initiating explosive devices	29,544	34.8	12,593	53.8	134.6
Industrial detonators	17,554	20.7	7,232	30.9	142.7
Ammonium Nitrate	16,189	19.1	-	-	N.M.
Others ⁽¹⁾	193	0.2	208	0.9	(7.2)
	84,879	100.0	23,408	100.0	262.6

Within PRC	74,112	87.3	19,572	83.6	278.7
<u>Outside PRC</u>					
Sales through export distributors ⁽²⁾	1,086	1.3	2,777	11.9	(60.9)
Australia	9,477	11.2	906	3.9	946.0
Others	204	0.2	153	0.6	33.3
	10,767	12.7	3,836	16.4	180.7
	84,879	100.0	23,408	100.0	262.6

	6M2010		6M2009		% change
	RMB'000	%	RMB'000	%	
Explosives devices	39,775	23.7	16,960	23.7	134.5
Industrial fuse and initiating explosive devices	60,160	35.8	35,040	49.1	71.7
Industrial detonators	35,855	21.3	18,801	26.3	90.7
Ammonium Nitrate	31,966	19.0	-	-	N.M.
Others ⁽¹⁾	287	0.2	643	0.9	(55.4)
	168,043	100.0	71,444	100.0	135.2

Within PRC	147,269	87.7	63,676	89.1	131.3
<u>Outside PRC</u>					
Sales through export distributors ⁽²⁾	2,206	1.3	3,423	4.8	(35.6)
Australia	16,685	9.9	3,152	4.4	429.3
Others	1,883	1.1	1,193	1.7	57.8
	20,774	12.3	7,768	10.9	167.4
	168,043	100.0	71,444	100.0	135.2

Note :

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

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

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 2Q2010, sales within PRC increased by approximately RMB 54.5 million or 278.7% as compared to 2Q2009. Our domestic sales of boosters, seismic charges, detonating cords and piston non-electric detonators increased by approximately RMB 7.9 million, RMB 2.0 million, RMB 17.2 million and RMB 10.3 million respectively. The increase was underpinned by strong demand within the domestic market as infrastructure and mining activities gained pace, as the PRC economy increased fixed asset investment spending.

Sales of ammonium nitrate of RMB 16.2 million arise from the acquisition of Hebei Yinguang Chemical Co., Ltd ("Hebei Yinguang"). There was no such sale for the previous corresponding period as the acquisition was made in October 2008.

For the 6-months ended 30 September 2009, sales within PRC increased by approximately RMB 83.6 million or 131.3% from 2Q2009's RMB 63.7 million to 2Q2010's RMB 147.3 million.

b) Sales through export distributors, Australia and other customers

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 2Q2010, gross profit margin for the Group decrease marginally by approximately 2.8 percentage points from 36.6% during 2Q2009 to 33.8% during 2Q2010. The decrease is mainly due to the lower gross profit margin of our new subsidiary, Hebei Yinguang.

For 2Q2010 and 6M2010, Hebei Yinguang's gross profit margin was approximately 8.7% and 11.4%, whereas Yinguang Technology's gross profit margin was approximately 39.7% and 44.4%, which is an increase of 3.1% and 3.8% from the previous corresponding quarter of 36.6% and 40.6% respectively.

Interest income / (Finance costs)

For 2Q2010 and 6M2010, interest income decreased by approximately RMB 17,000 and RMB 31,000, mainly due to reduced bank deposits. Finance costs increased by approximately RMB 543,000 and RMB 836,000, mainly due to the new bank loans and third party loan from the acquisition of Hebei Yinguang.

Other credits

For 2Q2010, other credits include a foreign exchange adjustment gain of approximately RMB 87,000 and a gain on sale of fixed asset of RMB 10,000.

Other credits for 6M2009 include a grant of RMB 300,000 from the Ministry of Finance of Fei County during the 6 months ended 30 September 2008. This grant was awarded to our Subsidiary, Yinguang Technology, for its good safety records.

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

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

Operating expenses

For 2Q2010, distribution costs increased by approximately RMB 1.7 million or 67.9% from 2Q2009's RMB 2.5 million to 2Q2010's RMB 4.2 million and administrative expenses increased by approximately RMB 2.2 million or 45.6% from 2Q2009's RMB 4.9 million to 2Q2010's RMB 7.1 million. The increase is mainly due to higher sales revenue as compared to the previous corresponding quarter.

For 6M2010, distribution costs increased by approximately RMB 3.3 million or 69.2% from 6M2009's RMB 4.7 million to 6M2010's RMB 7.9 million and administrative expenses increased by approximately RMB 4.9 million or 49.4% from 6M2009's RMB 9.9 million to 6M2010's RMB 14.7 million. The increase is mainly due to higher sales revenue as compared to the previous corresponding period.

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.

Our newly acquired subsidiary, Hebei Yinguang is liable to pay the full tax rate of 25%.

The effective tax rate for 2Q2010 and 6M2010 was 36.3% and 24.0% (2Q2009: 31.0% ; 6M2009 : 16.4%). This is higher than the PRC concessionary tax rate of 12.5% due mainly to a payment of RMB 3.8 million being the under-provision of prior-years tax upon finalization of tax by the PRC tax authorities.

Balance sheet

Property, plant and equipment increased by approximately RMB 18.3 million, mainly due to the finalisation of the purchase price allocation ("PPA") exercise for the acquisition of Hebei Yinguang which increased the fair value of Hebei Yinguang's property, plant and equipment by RMB 12.1 million.

Goodwill on consolidation decreased by approximately RMB 20.0 million to RMB 31,000 due to the finalisation of the purchase price allocation ("PPA") exercise for the acquisition of Hebei Yinguang.

Land use rights increased by approximately RMB 5.3 million due to the increase in the fair value of Hebei Yinguang's land use rights by RMB 5.9 million upon the finalisation of the PPA exercise, partially offset by the amortisation of RMB 537,000.

Licences of RMB 4.4 million and customer relationships of RMB 3.4 million are recognized upon the finalisation of the PPA exercise and will be amortised over a 10-year period.

Inventories, trade and other receivables, other assets and cash and cash equivalents, represent approximately 15.4%, 43.4%, 9.1% and 32.1% of our total current assets as at 30 September 2009.

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

Balance sheet (Cont'd)

Inventories decreased by approximately RMB 2.3 million or 4.9% from 31 March 2009's RMB 47.0 million to 30 September 2009's RMB 44.7 million. The decrease is mainly due to the decrease in raw materials of approximately RMB 1.5 million.

Trade and other receivables increased by approximately RMB 7.3 million or 6.1% mainly due to the higher sales revenue in 6M2010 as compared to the previous corresponding 6 months.

Other assets, comprising the Group's prepayments, decreased slightly by approximately RMB 1.0 million or 3.5% to RMB 26.5 million as at 30 September 2009.

As at 30 September 2009, our current liabilities comprise income tax payable of RMB 4.4 million, trade and other payables of approximately RMB 107.3 million, other financial liabilities of approximately RMB 72,000, bank loans of RMB 20.0 million, a third party loan of approximately RMB 25.4 million and other liabilities of approximately RMB 2.7 million. Non-current liabilities include deferred tax liabilities of RMB 6.2 million and the finance lease obligation of RMB 207,000.

Trade payables and accruals decreased by approximately RMB 36.4 million mainly due to the payment of a bill payable of RMB 30 million which became due during 1Q2010.

Total finance lease obligation of approximately RMB 279,000 consists of a 7 year finance lease secured against a motor vehicle with net book value of approximately RMB 359,000 as at 30 September 2009 and bears effective interest rate of 6.61% per annum.

During the 6 months ended 30 September 2009, bank loans and third party loan reduced by approximately RMB 3.0 million to RMB 20.0 million and by approximately RMB 1.3 million to RMB 25.4 million respectively.

Deferred tax liabilities of RMB 6.2 million relates to the deferred tax difference upon the finalisation of the PPA exercise for the acquisition of Hebei Yinguang.

Cash flow

For the 3 months ended 30 September 2009, the Group has net cash generated from operating activities of approximately RMB 19.2 million, net cash used in investing and financing activities of approximately RMB 8.0 million and RMB 1.0 million, respectively.

For the current 6 months ended 30 September 2009, the Group has net cash used in operating activities, investing activities and financing activities of approximately RMB 2.2 million, RMB 12.0 million and RMB 5.1 million respectively.

The net cash used in operating activities of approximately RMB 2.2 million is mainly due to the payment of a bill payable of approximately RMB 30.0 million due during 1Q2010.

The net cash used in investing activities of approximately RMB 12.0 million is mainly due to the purchase of miscellaneous property, plant and equipment.

The net cash used in financing activities of approximately RMB 5.1 million is mainly due to the repayment of short-term bank loan and third party loan of approximately RMB 3 million and RMB 1.3 million respectively.

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.

The global commercial explosives market is driven by the mining and infrastructure industries. Likewise, domestic mining and infrastructure industries in the People's Republic of China ("PRC") constitute the majority of the demand for commercial explosives, industry in which supply is highly regulated and foreign involvement restricted.

The PRC market continues to be the key contributor to the Group's revenue. At the same time, the Group continues to work closely with its overseas partners to serve its customers' requirements better and to establish its market presence in other resource-rich countries currently untapped by the Group. The Group also expects to continue to see slow improvements in the demand for its products as mining and infrastructure activities gradually pick up with the improvement of the global economy.

In August 2009, the Group's subsidiary, Shandong Yinguang Technology Co., Ltd, entered into a contract with an Indonesia company to supply boosters, under its "Yinguang" brand name, in Indonesia. This is its first direct export contract to Indonesia and shipment has been scheduled for November 2009.

Indonesia is rich in various mining resources including gold, coal, copper, tin, bauxite and nickel. It is also the world's largest exporter of thermal coal currently. With such robust and varied mining activities, Indonesia presents itself as a market with substantial potential for the Group. As such, the Group looks forward to long-term, meaningful relationships with the Indonesia customer in the future.

As the global economy gradually improves, the board of directors continues to adopt a cautiously optimistic view of its operating environment and will inform shareholders of any material impact these market conditions may have on the Group's future performance.

11. Dividend

**(a) *Current Financial Period Reported On*
Any dividend declared for the current financial period reported on?**

None.

**(b) *Corresponding Period of the Immediately Preceding Financial Year*
Any dividend declared for the corresponding period of the immediately preceding financial year?**

None.

(c) *Date payable*

Not applicable.

(d) *Books closure date*

Not applicable.

12. If no dividend has been declared/recommended, a statement to that effect.

No dividend has been declared/recommendeded 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 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
9 NOVEMBER 2009**