



## Fabchem China Limited

Company registration number : 200413128G

Financial Statements for the Third Quarter ended 31 December 2009 (“3Q2010”)

### 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 2009 to 31 Dec 2009 RMB'000	3 months from 1 Oct 2008 to 31 Dec 2008 RMB'000	Increase/ (Decrease)  %	9 months from 1 Apr 2009 to 31 Dec 2009 RMB'000	9 months from 1 Apr 2008 to 31 Dec 2008 RMB'000	Increase/ (Decrease)  %
<b>Revenue</b>	81,151	75,773	7.1	249,194	147,217	69.3
Cost of sales	(52,849)	(47,098)	12.2	(156,893)	(89,557)	75.2
<b>Gross profit</b>	28,302	28,675	(1.3)	92,301	57,660	60.1
<b>Other Items of Income</b>						
Interest income	58	74	(21.6)	171	218	(21.6)
Other credits – Note (i)	-	139	N.M.	89	394	(77.4)
<b>Other Items of Expense</b>						
Distribution costs	(5,240)	(4,820)	8.7	(13,188)	(9,518)	38.6
Administrative expenses	(8,227)	(6,637)	24.0	(22,973)	(16,218)	41.7
Financial expense	(386)	(215)	79.5	(1,237)	(230)	437.8
Other charges	(110)	-	N.M.	(710)	-	N.M.
<b>Profit before income tax</b>	14,397	17,216	(16.4)	54,453	32,306	68.6
Income tax expense	(2,194)	(2,875)	(23.7)	(11,808)	(5,347)	120.8
<b>Profit attributable to shareholders</b>	12,203	14,341	(14.9)	42,645	26,959	58.2
<b>Note (i) – Other credits</b>						
Foreign exchange adjustment gain	-	139	N.M.	-	86	N.M.
Gain on sale of fixed assets	-	-	-	89	8	1012.5
Grant from Ministry of Finance of Fei County	-	-	-	-	300	N.M.
	-	139	N.M.	89	394	(77.4)
<b>Note (ii) – Other Charges</b>						
Foreign exchange adjustment loss	(110)	-	N.M.	(710)	-	N.M.
	(110)	-	N.M.	(710)	-	N.M.

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

Amortisation expenses	(404)	(36)	1022.2	(1,732)	(36)	4711.1
Depreciation expenses	(2,992)	(958)	212.3	(9,046)	(2,300)	293.3
Foreign exchange adjustment gain / (loss)	(110)	139	(179.1)	(710)	86	(925.6)
Gain on sale of fixed assets	-	-	-	89	8	1012.5
Interest expense	(386)	(215)	79.5	(1,237)	(230)	437.8
Interest income from bank deposits	58	74	(21.6)	171	218	(21.6)

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 2009 to 31 Dec 2009 RMB'000	3 months from 1 Oct 2008 to 31 Dec 2008 RMB'000	Increase/(Decrease) %	9 months from 1 Apr 2009 to 31 Dec 2009 RMB'000	9 months from 1 Apr 2008 to 31 Dec 2008 RMB'000	Increase/(Decrease) %
<b>Profit attributable to shareholders</b>	12,203	14,341	(14.9)	42,645	26,959	58.2
Foreign currency translation difference	78	(195)	(140.0)	817	(278)	(393.9)
<b>Total comprehensive income for the period</b>	<u>12,281</u>	<u>14,146</u>	(13.2)	<u>43,462</u>	<u>26,681</u>	62.9

**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.**

	<b>Group</b>		<b>Company</b>	
	<b>31 December 2009 RMB'000</b>	<b>31 March 2009 RMB'000</b>	<b>31 December 2009 RMB'000</b>	<b>31 March 2009 RMB'000</b>
<b>ASSETS</b>				
<b>Non-current assets :</b>				
Property, plant and equipment	156,188	138,462	358	376
Goodwill on consolidation	31	20,001	-	-
Land use rights	50,153	45,026	-	-
Licenses	4,269	-	-	-
Customer relationships	3,350	-	-	-
Investment in subsidiary	-	-	109,689	101,176
<b>Total non-current assets</b>	<b>213,991</b>	<b>203,489</b>	<b>110,047</b>	<b>101,552</b>
<b>Current assets :</b>				
Inventories	49,414	47,001	-	-
Trade and other receivables (Note 1)	118,643	119,074	7,648	14,689
Other assets	30,163	27,500	73	97
Cash and cash equivalents	119,709	112,621	662	256
<b>Total current assets</b>	<b>317,929</b>	<b>306,196</b>	<b>8,383</b>	<b>15,042</b>
<b>Total assets</b>	<b>531,920</b>	<b>509,685</b>	<b>118,430</b>	<b>116,594</b>
<b>Capital and reserves :</b>				
Share capital	116,849	116,849	116,849	116,849
Retained earnings	201,920	163,859	(78)	8,494
Other reserves	33,158	27,757	(3,012)	(12,342)
<b>Total equity</b>	<b>351,927</b>	<b>308,465</b>	<b>113,759</b>	<b>113,001</b>
<b>Non-Current liabilities :</b>				
Deferred tax liabilities	6,104	-	-	-
Other financial liabilities	190	226	190	226
<b>Total non-current liabilities</b>	<b>6,294</b>	<b>226</b>	<b>190</b>	<b>226</b>
<b>Current liabilities :</b>				
Income tax payable	3,789	5,240	-	-
Trade and other payables (Note 2)	116,425	144,057	4,407	3,301
Other financial liabilities	74	66	74	66
Bank loans	24,000	23,000	-	-
Third party loan	24,274	26,622	-	-
Other liabilities	5,137	2,009	-	-
<b>Total current liabilities</b>	<b>173,699</b>	<b>200,994</b>	<b>4,481</b>	<b>3,367</b>
<b>Total liabilities</b>	<b>179,993</b>	<b>201,220</b>	<b>4,671</b>	<b>3,593</b>
<b>Total liabilities and equity</b>	<b>531,920</b>	<b>509,685</b>	<b>118,430</b>	<b>116,594</b>
<b>Note 1</b>				
Trade receivables	117,204	117,482	-	-
Dividend receivable from subsidiary	-	-	7,648	14,688
Other receivables	1,439	1,592	-	1
<b>Total trade and other receivables</b>	<b>118,643</b>	<b>119,074</b>	<b>7,648</b>	<b>14,689</b>
<b>Note 2</b>				
Trade payables and accruals	52,061	78,894	4,353	3,090
Other payables	64,364	65,163	54	211
<b>Total trade and other payables</b>	<b>116,425</b>	<b>144,057</b>	<b>4,407</b>	<b>3,301</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 2009</b>		<b>31 March 2009</b>	
<b>Secured</b>	<b>Unsecured</b>	<b>Secured</b>	<b>Unsecured</b>
9,074	39,274	8,066	41,622

**Amount repayable after one year**

**(RMB'000)**

<b>31 December 2009</b>		<b>31 March 2009</b>	
<b>Secured</b>	<b>Unsecured</b>	<b>Secured</b>	<b>Unsecured</b>
190	-	226	-

**Details of any collateral**

As at 31 December 2009, the Group has secured borrowings comprising a 7 years finance lease of approximately RMB 264,000 for the purchase of a motor vehicle and aggregate short-term bank loans of RMB 9.0 million. Unsecured borrowings relates to a loan from a third party of RMB 24.3 million and short-term bank loans of RMB 15 million.

The finance lease is secured against the motor vehicle with net book value of approximately RMB 348,000, 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 18.1 million. The secured short-term bank loans' interest rate is at 6.1065% per annum.

Unsecured borrowing of RMB 24.3 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 loans of RMB 15 million are guaranteed by the Ministry of Finance of Linxi County and a corporate guarantee from Shandong Yinguang Chemical Group Co., Ltd, the former holding company of Hebei Yinguang. The unsecured short-term bank loans' interest rate is 12.654% and 6.93% per annum respectively.

- 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 2009 to 31 Dec 2009 RMB'000	3 months from 1 Oct 2008 to 31 Dec 2008 RMB'000	9 months from 1 Apr 2009 to 31 Dec 2009 RMB'000	9 months from 1 Apr 2008 to 31 Dec 2008 RMB'000
<b>Cash flows from operating activities</b>				
Profit before income tax	14,397	17,216	54,453	32,306
Adjustments for :				
Amortisation of land use rights	404	36	1,732	36
Depreciation expense	2,992	958	9,046	2,300
Gain on sale of fixed assets	-	-	(89)	(8)
Interest income	(58)	(74)	(171)	(218)
Interest expenses	386	215	1,237	230
Net effect of exchange rate changes in consolidating foreign currency financial statements	74	(190)	786	(260)
Operating profit before working capital changes	18,195	18,161	66,994	34,386
Trade and other receivables	7,699	(12,318)	431	33,153
Other assets	(3,638)	(27,626)	(2,663)	(45,056)
Inventories	(4,711)	1,738	(2,413)	(13,781)
Trade and other payables	9,156	10,525	(27,632)	2,754
Other liabilities	2,407	(372)	3,128	(288)
Cash generated from operations	29,108	(9,892)	37,845	11,168
Income tax paid	(2,854)	(1,187)	(13,812)	(6,658)
<b>Net cash from / (used in) operating activities</b>	<b>26,254</b>	<b>(11,079)</b>	<b>24,033</b>	<b>4,510</b>
<b>Cash flows from investing activities</b>				
Cash flows from acquisition of subsidiary	-	27,970	-	27,970
Proceeds from sale of fixed assets	-	-	384	38
Purchase of property, plant and equipment	(2,421)	(10,335)	(14,887)	(27,663)
Interest received	58	74	171	218
<b>Net cash (used in) / from investing activities</b>	<b>(2,363)</b>	<b>17,709</b>	<b>(14,332)</b>	<b>563</b>
<b>Cash flows from financing activities</b>				
Repayment of finance lease obligation	(15)	(21)	(28)	(77)
Increase in short-term bank loan	4,000	-	1,000	-
Repayment of third party loan	(1,076)	-	(2,348)	-
Interest paid	(386)	(215)	(1,237)	(230)
<b>Net cash generated from / (used in) financing activities</b>	<b>2,523</b>	<b>(236)</b>	<b>(2,613)</b>	<b>(307)</b>
Net increase in cash	26,414	6,394	7,088	4,766
Cash at beginning of the period	93,295	107,300	112,621	108,928
<b>Cash at end of the period</b>	<b>119,709</b>	<b>113,694</b>	<b>119,709</b>	<b>113,694</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 2009	116,849	28,132	(375)	163,859	308,465
Appropriation for the period	-	3,552	-	(3,552)	-
Total comprehensive income for the period	-	-	739	30,442	31,181
Balance at 30 September 2009	116,849	31,684	364	190,749	339,646
Appropriation for the period	-	1,032	-	(1,032)	-
Total comprehensive income for the period	-	-	78	12,203	12,281
Balance at 31 December 2009	116,849	32,716	442	201,920	351,927
Balance at 1 April 2008	116,849	23,526	574	133,529	274,478
Appropriation for the period	-	1,765	-	(1,765)	-
Total comprehensive income for the period	-	-	(83)	12,618	12,535
Balance at 30 September 2008	116,849	25,291	491	144,382	287,013
Appropriation for the period	-	1,573	-	(1,573)	-
Total comprehensive income/(loss) for the period	-	-	(195)	14,341	14,146
Balance at 31 December 2008	116,849	26,864	296	157,150	301,159

	Share capital	Foreign exchange translation reserve	Retained earnings/(Accumulated losses)	Total
<b>Company (RMB'000)</b>				
Balance at 1 April 2009	116,849	(12,342)	8,494	113,001
Total comprehensive income/(loss) for the period	-	8,259	(5,962)	2,297
Balance at 30 September 2009	116,849	(4,083)	2,532	115,298
Total comprehensive income/(loss) for the period	-	1,071	(2,610)	(1,539)
Balance at 31 December 2009	116,849	(3,012)	(78)	113,759
Balance at 1 April 2008	116,849	2,114	(4,000)	114,963
Total comprehensive income/(loss) for the period	-	(7,063)	15,383	8,320
Balance at 30 September 2008	116,849	(4,949)	11,383	123,283
Total comprehensive income/(loss) for the period	-	(1,367)	(2,163)	(3,530)
Balance at 31 December 2008	116,849	(6,316)	9,220	119,753

**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 2009</b>	<b>31 March 2009</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, 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 31 Dec 2009	3 months ended 31 Dec 2008	9 months ended 31 Dec 2009	9 months ended 31 Dec 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	5.21	6.13	18.22	11.52
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 2009	31 March 2009	31 Dec 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	150.40	131.82	48.61	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 31 December 2009 ("3Q2010") increased by approximately RMB 5.4 million or 7.1%, from RMB 75.8 million for the 3-month period ended 31 December 2008 ("3Q2009") to RMB 81.2 million in 3Q2010. The increase is mainly due to the increase in sales of ammonium nitrate, offset by the decrease in sales to Australia.

The breakdown and comparison of our revenue by the above product types and geographical segments between 3Q2010 and 3Q2009 and between 9M2010 and 9M2009 are as follows:

	3Q2010		3Q2009		% change
	RMB'000	%	RMB'000	%	
Explosives devices	22,139	27.3	28,379	37.4	(22.0)
Industrial fuse and initiating explosive devices	21,564	26.5	21,140	27.9	2.0
Industrial detonators	16,454	20.3	17,357	22.9	(5.2)
Ammonium Nitrate	20,510	25.3	8,460	11.2	142.4
Others <sup>(1)</sup>	484	0.6	437	0.6	10.8
	<b>81,151</b>	<b>100.0</b>	<b>75,773</b>	<b>100.0</b>	<b>7.1</b>
Within PRC	65,896	81.2	52,240	68.9	26.1
<u>Outside PRC</u>					
Sales through export distributors <sup>(2)</sup>	657	0.8	792	1.1	(17.0)
Australia	8,587	10.6	17,067	22.5	(49.7)
Others	6,011	7.4	5,674	7.5	5.9
	<b>15,255</b>	<b>18.8</b>	<b>23,533</b>	<b>31.1</b>	<b>(35.2)</b>
	<b>81,151</b>	<b>100.0</b>	<b>75,773</b>	<b>100.0</b>	<b>7.1</b>
	9M2010		9M2009		% change
	RMB'000	%	RMB'000	%	
Explosives devices	61,914	24.8	45,340	30.8	36.6
Industrial fuse and initiating explosive devices	81,724	32.8	56,180	38.2	45.5
Industrial detonators	52,309	21.0	36,157	24.6	44.7
Ammonium Nitrate	52,476	21.1	8,460	5.7	520.3
Others <sup>(1)</sup>	771	0.3	1,080	0.7	(28.6)
	<b>249,194</b>	<b>100.0</b>	<b>147,217</b>	<b>100.0</b>	<b>69.3</b>
Within PRC	213,165	85.5	115,916	78.7	83.9
<u>Outside PRC</u>					
Sales through export distributors <sup>(2)</sup>	2,863	1.2	4,215	2.9	(32.1)
Australia	25,272	10.1	20,219	13.7	25.0
Others	7,894	3.2	6,867	4.7	15.0
	<b>36,029</b>	<b>14.5</b>	<b>31,301</b>	<b>21.3</b>	<b>15.1</b>
	<b>249,194</b>	<b>100.0</b>	<b>147,217</b>	<b>100.0</b>	<b>69.3</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)**

a) **Sales within PRC**

Sales within PRC increased by approximately RMB 13.7 million or 26.1% in 3Q2010 compared to 3Q2009. The increase is mainly due to the sales of ammonium nitrate. The increase is due to the improved economic conditions which led to the ramping up of our production capacities for the new 40,000 tonnes production facilities.

For 9M2010, sales within PRC increased by approximately RMB 97.2 million or 83.9%. The increase was driven mainly by the increased sales volume of ammonium nitrate, while sales in all our other product range also generally increased.

b) **Sales to Australia**

Sales to Australia decreased by RMB 8.5 million or 49.7% in 3Q2010 as compared to 3Q2009. The decrease is mainly due to the difference in scheduled shipments to Australia.

For 9M2010, sales to Australia increased by approximately RMB 5.1 million or 25.0%.

c) **Sales to Indonesia**

In November 2009, we made our first sales to Indonesia amounting to approximately RMB 3.8 million.

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**

In view of the increased sales of ammonium nitrate, gross profit margin decreased by approximately 2.9 percentage points from 3Q2009's 37.8% to 3Q2010's 34.9%. For 9M2010, gross profit margin decreased by approximately 2.2 percentage points from 9M2009's 39.2% to 9M2010's 37.0%.

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.

#### **Interest income / (Finance costs)**

For 3Q2010 and 9M2010, interest income decreased by approximately RMB 16,000 and RMB 47,000, mainly due to lower bank deposits during the period. Finance costs increased by approximately RMB 171,000 and RMB 1.0 million, due mainly to the new bank loans and third party loan from the acquisition of Hebei Yinguang.

#### **Operating expenses**

Distribution costs increased by approximately RMB 0.4 million or 8.7% and RMB 3.7 million or 38.6% in 3Q2010 and 9M2010 respectively. The increase is in line with the increase in sales revenue.

For 3Q2010 and 9M2010, administrative expenses increased by approximately RMB 1.6 million or 24.0% and RMB 6.8 million or 41.7% respectively. The increase is mainly due to the increase in administrative expenses from Hebei Yinguang, including additional amortisation of land use rights, licences and customer relationships subsequent to the finalisation of the purchase price allocation ("PPA") exercise for the acquisition of Hebei Yinguang.

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 credits / (charges)**

For 3Q2010, other charges relate to foreign exchange loss of approximately RMB 110,000.

Other credits for 9M2010 relates to a gain on sale of fixed assets of approximately RMB 89,000 and other charges relate to foreign exchange loss of approximately RMB 710,000.

Foreign exchange loss arises due to exchange rate fluctuations between Renminbi (RMB), United States Dollar (US\$) and Singapore Dollars (S\$) 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.

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

The effective tax rate for 3Q2010 and 9M2010 was 15.2% and 21.7% (3Q2009: 16.7% ; 9M2009 : 16.6%). This is higher than the PRC concessionary tax rate of 12.5% due to the corporate expenses incurred in Singapore.

**Balance sheet**

Property, plant and equipment increased by approximately RMB 17.7 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 PPA exercise for the acquisition of Hebei Yinguang.

Land use rights increased by approximately RMB 5.1 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 0.7 million.

Licences of RMB 4.3 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.

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**

Inventories, trade and other receivables, other assets and cash and cash equivalents, represent approximately 15.5%, 37.3%, 9.5% and 37.7% of our total current assets as at 31 December 2009.

Inventories increased by approximately RMB 2.4 million or 5.1% from 31 March 2009's RMB 47.0 million to 31 December 2009's RMB 49.4 million. The increase is mainly due to the increase in finished goods for sale in the following months.

Trade and other receivables decreased slightly by approximately RMB 0.4 million or 0.4% mainly due to the improved collectability during the current period reported on despite the increased in sales revenue.

Other assets, comprising the Group's prepayments, increased by approximately RMB 2.7 million or 9.7% to RMB 30.2 million as at 31 December 2009.

As at 31 December 2009, our current liabilities comprise income tax payable of RMB 3.8 million, trade and other payables of approximately RMB 116.4 million, other financial liabilities of approximately RMB 74,000, bank loans of RMB 24.0 million, a third party loan of approximately RMB 24.3 million and other liabilities of approximately RMB 5.1 million. Non-current liabilities include deferred tax liabilities of RMB 6.1 million and the finance lease obligation of RMB 190,000.

Trade payables and accruals decreased by approximately RMB 26.8 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 264,000 consists of a 7 year finance lease secured against a motor vehicle with net book value of approximately RMB 348,000 as at 31 December 2009 and bears effective interest rate of 6.61% per annum.

During the 9 months ended 31 December 2009, bank loans increased by RMB 1.0 million to RMB 24 million and third party loan reduced by approximately RMB 2.3 million to RMB 24.3 million.

Deferred tax liabilities of RMB 6.1 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 31 December 2009, the Group has net cash generated from operating activities and financing activities of approximately RMB 26.3 million and RMB 2.5 million respectively, and net cash used in investing activities of approximately RMB 2.4 million.

For the current 9 months ended 31 December 2009, the Group has net cash generated from operating activities of approximately RMB 24.0 million, net cash used in investing activities and financing activities of approximately RMB 14.3 million and RMB 2.6 million respectively.

The net cash used in investing activities of approximately RMB 14.3 million is mainly due to the purchase of miscellaneous property, plant and equipment.

The net cash used in financing activities of approximately RMB 2.6 million is mainly due to the repayment of third party loan of approximately RMB 2.3 million and payment of interest expenses of approximately RMB 1.2 million respectively, partially offset by the increase in short-term bank loan of approximately RMB 1.0 million.

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.**

Improved economic conditions

The improved economic conditions are leading the Group into exploring new opportunities.

Yinguang Technology had signed direct sales contract with Orica Limited and Beston Australia Pty Ltd with effect from January 2010. Under this agreement, Yinguang Technology will sell directly to our customers without the need of separate export agent, thus reducing our agent fees expenses.

At the same time, the Group is currently assessing a few upgrading projects to increase our production capacities and enhance the quality for our existing commercial explosives products, including detonating cords, non-electric tubes and detonators.

Subsequent to the upgrading, the management is confident that we will be able to tap the high-end commercial explosives market and increase the Group's market share for those products.

While the Group's subsidiary, Shandong Yinguang Technology Co., Ltd, had made its first direct export delivery to Indonesia in November 2009, the PRC market continues to be the key contributor to the Group's revenue.

Income tax implications

As mentioned under Note 8 above, 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 prevailing income tax 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 and Yinguang Technology is liable to pay 50.0% of the state prevailing income tax for the calendar years 2007 to 2009.

In this regard, Yinguang Technology will be liable to pay the full prevailing state income tax rate of 25% commencing 1 January 2010, thus increasing the Group's tax expenses.

The board of directors remains cautiously optimistic 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/recommendeded, 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 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  
09 FEBRUARY 2010**