



Fabchem China Limited

Company registration number: 200413128G

Financial Statements for the Second Quarter ended 30 September 2015 (“2Q2016”)

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

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

	Group			Group		
	3 months from 1 Jul 2015 to 30 Sept 2015 RMB'000	3 months from 1 Jul 2014 to 30 Sept 2014 RMB'000	Increase/(Decrease) %	6 months from 1 Apr 2015 to 30 Sept 2015 RMB'000	6 months from 1 Apr 2014 to 30 Sept 2014 RMB'000	Increase/(Decrease) %
Revenue	58,753	96,969	(39.4)	145,388	208,734	(30.3)
Cost of sales	(38,854)	(63,758)	(39.1)	(96,217)	(143,267)	(32.8)
Gross profit	19,899	33,211	(40.1)	49,171	65,467	(24.9)
Other Items of Income						
Interest income	221	404	(45.3)	466	650	(28.3)
Other gains – Note (i)	897	208	331.3	1,074	1,006	6.8
Other Items of Expense						
Distribution costs	(5,305)	(7,595)	(30.2)	(11,305)	(15,724)	(28.1)
Administrative expenses	(9,597)	(10,516)	(8.7)	(19,716)	(21,478)	(8.2)
Financial costs	(1,765)	(2,277)	(22.5)	(3,687)	(4,394)	(16.1)
Other losses – Note (ii)	(19)	(67)	(71.6)	(19)	-	N.M.
Profit before income tax	4,331	13,368	(67.6)	15,984	25,527	(37.4)
Income tax expense	(2,469)	(5,048)	(51.1)	(7,029)	(10,188)	(31.0)
Profit attributable to shareholders	1,862	8,320	(77.6)	8,955	15,339	(41.6)
Note (i) – Other Gains						
Foreign exchange adjustment gain	566	-	N.M.	531	676	(21.4)
Government Grant	305	205	48.8	517	327	(58.1)
Allowance for impairment on trade receivables - reversal	26	3	766.7	26	3	766.7
	897	208	331.3	1,074	1,006	6.8
Note (ii) – Other Losses						
Loss on disposal of property, plant and equipments	(19)	-	N.M.	(19)	-	N.M.
Foreign exchange adjustment loss	-	(67)	N.M.	-	-	N.M.
	(19)	(67)	(71.6)	(19)	-	N.M.

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

Allowance for impairment on trade receivables - reversal	26	3	766.7	26	3	766.7
Amortisation expenses	(634)	(1,022)	(38.0)	(1,267)	(1,861)	(31.9)
Depreciation expenses	(4,670)	(5,201)	(10.2)	(9,367)	(9,853)	(4.9)
Foreign exchange adjustment gain / (loss)	566	(67)	N.M.	531	676	(21.4)
Loss on sale of property, plant and equipments	(19)	-	N.M.	(19)	-	N.M.
Interest expense	(1,765)	(2,277)	(22.5)	(3,687)	(4,394)	(16.1)
Interest income from bank deposits	221	404	(45.3)	466	650	(28.3)

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 2015 to 30 Sept 2015 RMB'000	3 months from 1 Jul 2014 to 30 Sept 2014 RMB'000	Increase/(Decrease) %	6 months from 1 Apr 2015 to 30 Sept 2015 RMB'000	6 months from 1 Apr 2014 to 30 Sept 2014 RMB'000	Increase/(Decrease) %
Profit attributable to shareholders	1,862	8,320	(77.6)	8,955	15,339	(41.6)
Foreign currency translation difference	(180)	(125)	44.0	165	(48)	N.M.
Total comprehensive income for the period	<u>1,682</u>	<u>8,195</u>	(79.5)	<u>9,120</u>	<u>15,291</u>	(40.4)

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

	Group		Company	
	30 Sept 2015 RMB'000	31 March 2015 RMB'000	30 Sept 2015 RMB'000	31 March 2015 RMB'000
ASSETS				
Non-current assets :				
Property, plant and equipment	233,542	238,014	68	119
Other assets, non-current	88,861	90,128	-	-
Investment in subsidiary	-	-	100,355	100,411
Deferred tax assets	3,997	4,102	-	-
Total non-current assets	326,400	332,244	100,423	100,530
Current assets :				
Inventories	45,913	61,893	-	-
Trade and other receivables (Note 1)	88,918	87,101	13,443	22,512
Other assets, current	26,633	11,889	165	127
Cash and cash equivalents	147,886	125,908	600	920
Total current assets	309,350	286,791	14,208	23,559
Total assets	635,750	619,035	114,631	124,089
EQUITY AND LIABILITIES				
Capital and reserves :				
Share capital	116,849	116,849	116,849	116,849
Retained earnings	205,107	201,233	7,416	16,204
Other reserves	88,202	86,140	(12,708)	(12,815)
Total equity	410,158	404,222	111,557	120,238
Non-Current liabilities :				
Deferred tax liabilities	2,028	1,691	-	-
Total non-current liabilities	2,028	1,691	-	-
Current liabilities :				
Income tax payable	2,085	2,745	-	-
Trade and other payables (Note 2)	106,062	115,319	3,074	3,851
Other financial liabilities, current	105,563	83,672	-	-
Other liabilities	9,854	11,386	-	-
Total current liabilities	223,564	213,122	3,074	3,851
Total liabilities	225,592	214,813	3,074	3,851
Total liabilities and equity	635,750	619,035	114,631	124,089
Note 1				
Trade receivables	84,989	82,413	-	-
Amount receivable from subsidiary	-	-	13,443	22,512
Tax recoverable	3,439	3,439	-	-
Other receivables	490	1,249	-	-
Trade and other receivables	88,918	87,101	13,443	22,512
Note 2				
Trade payables and accruals	83,239	94,255	2,413	3,221
Other payables	22,823	21,064	661	630
Trade and other payables	106,062	115,319	3,074	3,851

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 2015		31 March 2015	
Secured	Unsecured	Secured	Unsecured
92,361	13,202	45,500	38,172

Amount repayable after one year

(RMB'000)

30 September 2015		31 March 2014	
Secured	Unsecured	Secured	Unsecured
-	-	-	-

Details of any collateral

As at 30 September 2015, the Group has aggregate secured short-term loans from financial institutions of RMB 92.4 million, while unsecured borrowings relates to a loan from a third party of RMB 8.2 million and a short-term loan from a financial institution of RMB 5.0 million.

Secured short-term bank loans of RMB 92.4 million are secured using our subsidiaries' land and buildings with net book value of approximately RMB 97.6 million. The secured short-term bank loans' interest rate ranged from 5.06% to 6.955% per annum.

Unsecured borrowing of RMB 8.2 million relates to a loan from Linxi County Nitrogenous Fertilizer Co., Ltd. Unsecured short-term bank loan of RMB 5.0 million is guaranteed by a corporate guarantee from Shandong Yinguang Chemical Group Co., Ltd, the former holding company of Hebei Yinguang Chemical Co., Ltd ("Hebei Yinguang"), and bears an interest rate of 6.955% per annum.

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

	Group		Group	
	3 months from 1 Jul 2015 to 30 Sept 2015 RMB'000	3 months from 1 Jul 2014 to 30 Sept 2014 RMB'000	6 months from 1 Apr 2015 to 30 Sept 2015 RMB'000	6 months from 1 Apr 2014 to 30 Sept 2014 RMB'000
Cash flows from operating activities				
Profit before income tax	4,331	13,368	15,984	25,527
Adjustments for :				
Amortisation expenses	634	1,022	1,267	1,861
Allowance for impairment on trade receivables - reversal	(26)	(3)	(26)	(3)
Depreciation expense	4,670	5,201	9,367	9,853
Loss on sale of property, plant and equipments	19	-	19	-
Provision for safety expenses	716	936	1,569	2,314
Interest income	(221)	(404)	(466)	(650)
Interest expenses	1,765	2,277	3,687	4,394
Net effect of exchange rate changes in translation of financial statements of Parent	(179)	(122)	164	(46)
Operating profit before working capital changes	11,709	22,275	31,565	43,250
Inventories	(636)	(329)	15,980	(820)
Trade and other receivables	7,379	19,202	(1,791)	4,220
Other assets	1,618	9,082	(4,307)	(1,792)
Trade and other payables	(180)	(21,774)	(9,257)	28,179
Other liabilities	(953)	(577)	(3,101)	(1,892)
Cash generated from operations	18,937	27,879	28,089	71,145
Income tax paid	(3,432)	(3,790)	(7,247)	(6,120)
Net cash from operating activities	15,505	24,089	21,842	65,025
Cash flows from investing activities				
Proceeds from sale of property, plant and equipments	27	-	27	-
Purchase of property, plant and equipments	(2,774)	(1,797)	(4,940)	(8,371)
Purchase of land use rights	-	(3)	(10,437)	(2,018)
Interest received	221	404	466	650
Net cash used in investing activities	(2,526)	(1,396)	(14,884)	(9,739)
Cash flows from financing activities				
Payment of dividends	(3,184)	(2,302)	(3,184)	(2,302)
Proceeds from bank borrowings	28,900	29,000	119,391	119,500
Repayment of borrowings	(29,000)	(30,000)	(97,500)	(104,000)
Interest paid	(1,765)	(2,277)	(3,687)	(4,394)
Net cash (used in)/from financing activities	(5,049)	(5,579)	15,020	8,804
Net increase in cash	7,930	17,114	21,978	64,090
Cash at beginning of the period	139,956	146,449	125,908	99,473
Cash at end of the period	147,886	163,563	147,886	163,563

1(d)(i) A statement (for the issuer and group) showing either (i) all changes in equity or (ii) changes in equity other than those arising from capitalisation issues and distributions to shareholders, together with a comparative statement for the corresponding period of the immediately preceding financial year.

	Share capital	Statutory reserves	Capital reserve	Foreign exchange translation reserves	Retained earnings	Total
Group (RMB'000)						
Balance at 1 April 2015	116,849	42,224	44,000	(84)	201,233	404,222
Appropriation for the period	-	1,217	-	-	(1,217)	-
Total comprehensive income for the period	-	-	-	345	7,093	7,438
Balance at 30 June 2015	116,849	43,441	44,000	261	207,109	411,660
Appropriation for the period	-	680	-	-	(680)	-
Dividend paid	-	-	-	-	(3,184)	(3,184)
Total comprehensive (loss)/income for the period	-	-	-	(180)	1,862	1,682
Balance at 30 September 2015	116,849	44,121	44,000	81	205,107	410,158
Balance at 1 April 2014	116,849	37,981	44,000	230	194,706	393,766
Appropriation for the period	-	1,445	-	-	(1,445)	-
Total comprehensive income for the period	-	-	-	77	7,019	7,096
Balance at 30 June 2014	116,849	39,426	44,000	307	200,280	400,862
Appropriation for the period	-	1,399	-	-	(1,399)	-
Dividend paid	-	-	-	-	(2,302)	(2,302)
Total comprehensive (loss)/income for the period	-	-	-	(125)	8,320	8,195
Balance at 30 September 2014	116,849	40,825	44,000	182	204,899	406,755

	Share capital	Foreign exchange translation reserve	Retained earnings	Total
Company (RMB'000)				
Balance at 1 April 2015	116,849	(12,815)	16,204	120,238
Total comprehensive income/(loss) for the period	-	1,903	(3,116)	(1,213)
Balance at 30 June 2015	116,849	(10,912)	13,088	119,025
Dividend paid	-	-	(3,184)	(3,184)
Total comprehensive loss for the period	-	(1,796)	(2,488)	(4,284)
Balance at 30 September 2015	116,849	(12,708)	7,416	111,557
Balance at 1 April 2014	116,849	(2,527)	9,720	124,042
Total comprehensive income/(loss) for the period	-	727	(2,599)	(1,872)
Balance at 30 June 2014	116,849	(1,800)	7,121	122,170
Dividend paid	-	-	(2,302)	(2,302)
Total comprehensive loss for the period	-	(2,310)	(3,184)	(5,494)
Balance at 30 September 2014	116,849	(4,110)	1,635	114,374

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.

Issued and Paid-Up Capital	Group	
	Number of Shares	Share Capital (S\$)
As at 31 March 2015 (audited)	234,000,000	23,458,985
As at 30 September 2015 (Unaudited)	46,800,000	23,458,985

On 30 July 2015 during an Extraordinary General Meeting (“EGM”), the shareholders of the Company approved the consolidation of every five (5) existing ordinary shares of the Company into one (1) ordinary share (“Share consolidation”). The Share consolidation was completed and became effective as at 9.00 am on 1 September 2015 when 234,000,000 existing ordinary shares were consolidated into 46,800,000 ordinary shares.

The Company did not have any outstanding convertibles and treasury shares 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.

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 2015	31 March 2015
Total number of issued shares	46,800,000*	234,000,000

* After the completion of the Share Consolidation.

1(d)(iv) A statement showing all sales, transfers, disposal, cancellation and/or use of treasury shares as at the end of the current financial period reported on.

There is no sale, transfer, disposal, cancellation and/or use of treasury shares as at the end of the current financial period reported on.

2. Whether the figures have been audited or reviewed and in accordance with which auditing standard or practice.

The figures have not been audited nor reviewed by the auditors.

3. Where the figures have been audited or reviewed, the auditors’ report (including any qualifications or emphasis of a matter).

The figures have not been audited nor reviewed by the auditors.

4. **Whether the same accounting policies and methods of computation as in the issuer's most recently audited annual financial statements have been applied.**

The Group has applied the same accounting policies and methods of computation as in the most recently audited financial statements.

5. **If there are any changes in the accounting policies and methods of computation, including any required by an accounting standard, what has changed, as well as the reasons for, and the effect of, the change.**

There are no other material changes in the accounting policies and methods of computation.

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

	Group		Group	
	3 months ended 30 Sept 2015	3 months ended 30 Sept 2014 (Restated *)	6 months ended 30 Sept 2015	6 months ended 30 Sept 2014 (Restated *)
	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	3.98	17.78	19.13	32.78
Weighted average number of ordinary shares in issue for basic earnings per share	46,800,000	46,800,000	46,800,000	46,800,000

There is no dilution of shares as there are no shares under option.

* Comparative weighted average number of ordinary shares and basic earnings per share has been adjusted to reflect the effects of the Share Consolidation during the current financial period.

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 2015	31 March 2015	30 Sept 2015	31 March 2015
	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	876.41	172.74	238.37	51.38
Number of shares used in calculating net asset value	46,800,000	234,000,000	46,800,000	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 2015 ("2Q2016") decreased by approximately RMB 38.2 million or 39.4%, from RMB 97.0 million of the 3-month period ended 30 September 2014 ("2Q2015") to RMB 58.8 million in 2Q2016. The decrease in revenue is mainly due to lower sales across all products segments during 2Q2016 as compared to 2Q2015.

Our products can be categorised mainly into (a) explosive devices such as boosters; (b) industrial fuse and initiating explosive devices such as detonating cords and non-electric tubes; (c) industrial detonators such as 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 2Q2016 and 2Q2015 and between the 6-month period ended 30 September 2015 ("6M2016") and the 6-month period ended 30 September 2014 ("6M2015") are as follows:

	2Q2016		2Q2015		% change
	RMB'000	%	RMB'000	%	
Explosives devices	23,555	40.1	40,999	42.3	(42.5)
Industrial fuse and initiating explosive devices	18,948	32.2	29,331	30.2	(35.4)
Industrial detonators	15,784	26.9	21,101	21.8	(25.2)
Ammonium Nitrate	299	0.5	5,312	5.5	(94.4)
Others ⁽¹⁾	167	0.3	226	0.2	(26.1)
	58,753	100.0	96,969	100.0	(39.4)
Within PRC	39,037	66.4	56,836	58.6	(31.3)
<u>Outside PRC</u>					
Sales through export distributors ⁽²⁾	-	-	1,952	2.0	N.M.
Australia	16,844	28.7	34,510	35.6	(51.2)
Others	2,872	4.9	3,671	3.8	(21.8)
	19,716	33.6	40,133	41.4	(50.9)
	58,753	100.0	96,969	100.0	(39.4)

	6M2016		6M2015		% change
	RMB'000	%	RMB'000	%	
Explosives devices	69,011	47.5	76,550	36.7	(9.8)
Industrial fuse and initiating explosive devices	42,381	29.1	60,494	29.0	(29.9)
Industrial detonators	32,402	22.3	42,121	20.2	(23.1)
Ammonium Nitrate	1,282	0.9	29,142	13.9	(95.6)
Others ⁽¹⁾	312	0.2	427	0.2	(26.9)
	145,388	100.0	208,734	100.0	(30.3)
Within PRC	86,535	59.5	138,200	66.2	(37.4)
<u>Outside PRC</u>					
Sales through export distributors ⁽²⁾	-	-	1,952	0.9	N.M.
Australia	54,375	37.4	60,750	29.1	(10.5)
Others	4,478	3.1	7,832	3.8	(42.8)
	58,853	40.5	70,534	33.8	(16.6)
	145,388	100.0	208,734	100.0	(30.3)

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 2Q2016, sales within PRC decreased by approximately RMB 17.8 million or 31.3% as compared to 2Q2015. For 6M2016, sales within PRC decreased by approximately RMB 51.7 million or 37.4% as compared to 6M2015. The decline was mainly due to the lower PRC sales across all our product segments.

As mentioned in our previous announcements, China has been experiencing a slowdown in its economic growth and the broad-based weakness in global commodity prices continues to impact mining activities in China. Moreover, due to the challenging market conditions for ammonium nitrate, there was no production of ammonium nitrate during the current period under review and as such, the sale of ammonium nitrate declined significantly by 95.6% in 6M2016 as compared to 6M2015.

b) **Sales through export distributors**

There were no export sales through export distributors during the current period under review.

c) **Sales to Australia**

During 2Q2016 and 6M2016, sales to Australia decreased by approximately RMB 17.7 million or 51.2% and RMB 6.4 million or 10.5% respectively. The decline is mainly attributed to the temporary closure of ports, namely the Port of Qingdao and Port of Weihai during September 2015, which were indirectly affected by the explosions at the unrelated warehouses situated at the Port of Tianjin.

The temporary closure of these ports and stoppage of port activities for commercial explosives at the Port of Qingdao and Port of Weihai have affected our customers' vessels from docking at the ports and thus Yinguang Technology was not able to load the commercial explosive products onto our customers' vessels during this period.

However, the Group managed to successfully load our commercial explosives products onto the vessel arranged by Orica Australia through the Port of Weihai on 21 September 2015. For more information, please refer to our earlier announcements on 7 September 2015 and 25 September 2015.

d) **Sales to other countries**

During 2Q2016 and 6M2016, sales to other countries decreased by approximately RMB 0.8 million and RMB 3.4 million respectively. The decline is mainly due to lower sales to other countries, namely Indonesia, Mongolia and Kyrgyzstan.

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").

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

During 2Q2016, the Group's gross profit margin decreased marginally by approximately 0.3 percentage points, from 34.2% in 2Q2015 to 33.9% in 2Q2016. For 6M2016, the Group's gross profit margin improved by approximately 2.4 percentage points, from 31.4% in 6M2015 to 33.8% in 6M2016.

The improvement in the Group's gross profit margin was mainly due to the Group's product mix being skewed towards higher margin products as sales of ammonium nitrate (which accounted for the lowest gross margin among the Group's four product segments) declined significantly during the current period under review since the production of ammonium nitrate was halted.

Interest income / (Finance costs)

For 2Q2016 and 6M2016, interest income decreased by approximately RMB 183,000 and RMB 184,000, respectively, mainly due to lower average bank deposits during the current period under review.

For 2Q2016 and 6M2016, finance costs decreased by approximately RMB 512,000 and RMB 707,000, respectively, mainly due to lower bank lending interest rate.

Other gains / (Other losses)

For 2Q2016, other gains relate to foreign exchange adjustment gain of RMB 566,000, government grants of RMB 305,000 and a reversal of allowance for impairment on trade receivables of RMB 26,000. For 2Q2015, other gains relate to government grants of RMB 205,000 and a reversal of allowance for impairment on trade receivables of RMB 3,000.

For 6M2016, other gains relate to foreign exchange adjustment gain of RMB 531,000, government grants of RMB 517,000, and a reversal of allowance for impairment on trade receivables of RMB 26,000. For 6M2015, other gains relate to foreign exchange adjustment gain of RMB 676,000, government grants of RMB 327,000, and a reversal of allowance for impairment on trade receivables of RMB 3,000.

For 2Q2016 and 6M2016, other losses relate to loss on disposal of property, plant and equipment of approximately RMB 19,000. For 2Q2015, other losses relate to foreign exchange adjustment loss of approximately RMB 67,000.

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

Operating expenses

Corresponding to lower revenue registered in 2Q2016 and 6M2016, the Group's distribution costs decreased by approximately 30.2% and 28.1%, respectively. Administrative expenses also declined by approximately 8.7% and 8.2% for 2Q2016 and 6M2016, respectively. During 6M2016, amortisation expenses decreased by approximately RMB 594,000 due to amortisation charges for intangible assets during 6M2015. Intangible assets were fully written-off as at 31 March 2015, thus no further amortisation charges for 6M2016.

Income tax expenses

The effective tax rate for 2Q2016 and 6M2016 was 57.0% and 44.0%, respectively (2Q2015: 37.8% ; 6M2015: 39.9%). This is higher than the PRC tax rate of 25.0% mainly due to the loss-making position of Hebei Yinguang and the non-deductible expenses of the Group.

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

Statement of Financial Position

Property, plant and equipment decreased by approximately RMB 4.5 million, mainly due to the depreciation charged for the current period under review of approximately RMB 9.4 million, which was partially offset by the acquisition of property, plant and equipment of approximately RMB 4.9 million.

Other assets, non-current relate to the Group's land use rights, which decreased by approximately RMB 1.3 million mainly due to the amortisation charges of approximately RMB 1.3 million recognized during the current period under review.

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

Inventories, trade and other receivables, other assets and cash and cash equivalents, represented approximately 14.8%, 28.8%, 8.6% and 47.8% respectively of our total current assets as at 30 September 2015.

Inventories decreased by approximately RMB 16.0 million or 25.8% to RMB 45.9 million as at 30 September 2015, as compared to RMB 61.9 million as at 31 March 2015. The decrease was mainly due to the decrease in raw materials and finished goods.

During the current quarter under review, trade and other receivables increased marginally by approximately RMB 1.8 million or 2.1%.

Other assets, current comprising the Group's prepayments, increased by approximately RMB 14.7 million or 124.0% to RMB 26.6 million as at 30 September 2015. The increment was mainly due to a prepayment for land use rights of approximately RMB 10.4 million relating to the new storage facility.

As at 30 September 2015, our current liabilities comprised of income tax payable of RMB 2.1 million, trade and other payables of approximately RMB 106.1 million, other current financial liabilities of approximately RMB 105.6 million and other liabilities of RMB 9.9 million. Non-current liabilities comprised of deferred tax liabilities of RMB 2.0 million.

Trade and other payables decreased by approximately RMB 9.3 million mainly due to the decrease in bills payables due of RMB 7.0 million.

As at 30 September 2015, other current financial liabilities of RMB 105.6 million comprised of bank loans of RMB 97.4 million and a third party loan of RMB 8.2 million. The increment of RMB 22.0 million from RMB 83.7 million as at 31 March 2015 was mainly due to the additional bank loans obtained by the Group during 1Q2016 upon repayment of those loan amounts that were due before 31 March 2015. Adhering to the customary banking practices in the PRC, the Group's bank loans are for a period of one year or less.

Other liabilities of RMB 9.9 million relate to the Group's provision for safety expenses and advances from customers.

Deferred tax liabilities of RMB 2.0 million relate mainly to the deferred tax difference upon the finalisation of the PPA exercise in relation to the acquisition of Hebei Yinguang in 2008 and the deferred tax liabilities for the withholding tax on dividend payable by our subsidiary in China.

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

Cash flow

For 2Q2016, the Group has net cash from operating activities of approximately RMB 15.5 million, net cash used in investing activities of approximately RMB 2.5 million and net cash used in financing activities of approximately RMB 5.0 million.

For 6M2016, the Group has net cash from operating activities of approximately RMB 21.8 million, net cash used in investing activities of RMB 14.9 million and net cash from financing activities of approximately RMB 15.0 million.

The net cash from operating activities for 2Q2016 and 6M2016 was mainly due to trade receivables collections and lower inventories held on hand.

The net cash used in investing activities of approximately RMB 14.9 million during 6M2016 was mainly due to the acquisition of property, plant and equipment of approximately RMB 4.9 million and the prepayment for land use rights of approximately RMB 10.4 million, which was partially offset by the interest received and proceeds from the sales of property, plant and equipment.

The net cash used in financing activities during 6M2016 was mainly due to the payment of dividends of approximately RMB 3.2 million and payment of interest of RMB 1.8 million. The net cash from financing activities during 6M2015 was mainly due to the net increase in bank loans by RMB 21.9 million, which was partially offset by the payment of dividends and interest expenses.

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

The current second quarter results for the 3-months period ended 30 September 2015 are in line with the Company's commentary as disclosed under paragraph 10 of the first quarter results announcement for the financial period ended 30 June 2015 and the Company's announcements made on 7 September 2015 and 25 September 2015.

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.**

Resumption of the production of commercial explosive products except for boosters

An announcement issued by the Company on 30 October 2015 highlighted an unrelated explosion incident at a booster production plant in Shandong Province, Linyi City, Pingyi County. As a precautionary measure, the authorities required all commercial explosives manufacturers in Shandong Province to temporarily cease all production of commercial explosive products for safety inspections and clearance by the relevant authorities.

As of the date of this announcement, Yinguang Technology has already completed the safety inspection. However, Yinguang Technology has yet to resume production of commercial explosive products as we are awaiting for the relevant authorities to provide the clearance confirmation to resume production.

The management will continue to follow up with the relevant authorities in order to resume production and we will update Shareholders of any other material impact to the Group accordingly.

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)**

Update on the new ammonium nitrate production facilities

Following our earlier announcements on the new ammonium nitrate production facilities, the construction of the new facilities remained halted due to the negative market outlook for the demand of ammonium nitrate.

In light of the weak market conditions for ammonium nitrate, this product segment is projected to continue to experience an operating loss.

The management will continue to monitor the situation and update Shareholders of any other material impact to the Group accordingly.

China market updates

China continues to experience a slowdown in its economic growth and the broad-based weakness in global commodity prices continues to impact mining activities in China. In addition, as pollution and environmental issues remain key issues in China, the Chinese authorities have increased their scrutiny and regulations on industrial activities (such as refinery and power plant facilities) that are major causes of such issues. As a result, these factors have led to reduced mining activities in China and will continue to affect our local sales in China as most of our commercial explosives products are used in mining related activities.

The management will continue to monitor the situation and update Shareholders of any other material impact to the Group accordingly.

11. **Dividend**

(a) ***Current Financial Period Reported On***

Any dividend declared for the current financial period reported on?

None.

(b) ***Corresponding Period of the Immediately Preceding Financial Year***

Any dividend declared for the corresponding period of the immediately preceding financial year?

None.

(c) ***Date payable***

Not applicable.

(d) ***Books closure date***

Not applicable.

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

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

13. Interested Person Transaction

		Aggregate value of all interested person transactions during the financial period under review (excluding transactions less than \$100,000 and transactions conducted under shareholders' mandate pursuant to Rule 920)		Aggregate value of all interested person transactions conducted under shareholders' mandate pursuant to Rule 920 (excluding transactions less than \$100,000)	
		2Q2016	2Q2015	2Q2016	2Q2015
Name of interested person	Nature	RMB'000	RMB'000	RMB'000	RMB'000
Shandong Yinguang Minbao Qicai Co., Ltd ⁽¹⁾	Sales of ammonium nitrate	-	1,348	-	-
Dyno Nobel Australia ⁽²⁾	Sales of commercial explosives	-	-	3,757	10,148
		6M2016	6M2015	6M2016	6M2015
Name of interested person	Nature	RMB'000	RMB'000	RMB'000	RMB'000
Shandong Yinguang Security Services Co., Ltd	Provision of security services	7,200	7,200	-	-
Zaozhuang Yinguang Construction Co., Ltd	Provision of construction and renovation service	-	757	-	-
Shandong Yinguang Minbao Qicai Co., Ltd ⁽¹⁾	Sales of ammonium nitrate	-	5,233	-	-
Dyno Nobel Australia ⁽²⁾	Sales of commercial explosives	-	-	13,203	21,506

Footnotes:

⁽¹⁾ The relevant general mandate was approved at the Extraordinary General Meeting held on 25 July 2014 and was updated and approved at the Annual General Meeting held on 30 July 2015.

⁽²⁾ The relevant general mandate was approved at the Extraordinary General Meeting held on 10 November 2011 and was updated and approved at the Annual General Meeting held on 30 July 2015.

14. Negative assurance confirmation pursuant to Rule 705(5) of the Listing Manual

On behalf of the Board of Directors of the Company, we, the undersigned, hereby confirm to the best of our knowledge that nothing has come to the attention of the Board of Directors of the Company which may render the unaudited 2nd quarter financial statements set out above to be false or misleading in any material aspect.

For and On behalf of the Board of Directors

Sun Bowen
Managing Director

Bao Hongwei
Director

**BY ORDER OF THE BOARD
SUN BOWEN
MANAGING DIRECTOR
13 NOVEMBER 2015**