



Fabchem China Limited

Company registration number: 200413128G

Financial Statements for the Second Quarter ended 30 September 2016 (“2Q2017”)

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 2016 to 30 Sept 2016 RMB'000 | 3 months from 1 Jul 2015 to 30 Sept 2015 RMB'000 | Increase/(Decrease) % | 6 months from 1 Apr 2016 to 30 Sept 2016 RMB'000 | 6 months from 1 Apr 2015 to 30 Sept 2015 RMB'000 | Increase/(Decrease) % |
| Revenue | 35,913 | 58,753 | (38.9) | 68,412 | 145,388 | (52.9) |
| Cost of sales | (31,887) | (38,854) | (17.9) | (60,965) | (96,217) | (36.6) |
| Gross profit | 4,026 | 19,899 | (79.8) | 7,447 | 49,171 | (84.9) |
| Other Items of Income | | | | | | |
| Interest income | 72 | 221 | (67.4) | 330 | 466 | (29.2) |
| Other gains – Note (i) | 30,624 | 897 | 3314.0 | 31,022 | 1,074 | 2788.5 |
| Other Items of Expense | | | | | | |
| Distribution costs | (3,575) | (5,305) | (32.6) | (6,619) | (11,305) | (41.5) |
| Administrative expenses | (8,548) | (9,597) | (10.9) | (18,202) | (19,716) | (7.7) |
| Financial costs | (1,245) | (1,765) | (29.5) | (2,864) | (3,687) | (22.3) |
| Other losses – Note (ii) | - | (19) | N.M. | (1,316) | (19) | 6826.3 |
| Profit before income tax | 21,354 | 4,331 | 393.1 | 9,798 | 15,984 | (38.7) |
| Income tax expense | (181) | (2,469) | (92.7) | (406) | (7,029) | (94.2) |
| Profit attributable to shareholders | 21,173 | 1,862 | 1037.1 | 9,392 | 8,955 | 4.9 |
| Note (i) – Other Gains | | | | | | |
| Foreign exchange adjustment gain | 14 | 566 | (97.5) | - | 531 | N.M. |
| Government Grant | 279 | 305 | (8.5) | 519 | 517 | 0.4 |
| Gain on disposal of subsidiary, net – Note (iii) | 30,114 | - | N.M. | 30,114 | - | N.M. |
| Allowance for impairment on trade receivables - reversal | 217 | 26 | 734.6 | 389 | 26 | 1396.2 |
| | 30,624 | 897 | 3314.0 | 31,022 | 1,074 | 2788.5 |
| Note (ii) – Other Losses | | | | | | |
| Loss on disposal of property, plant and equipment | - | (19) | N.M. | (1,116) | (19) | 5773.7 |
| Foreign exchange adjustment loss | - | - | - | (200) | - | N.M. |
| | - | (19) | N.M. | (1,316) | (19) | 6826.3 |
| Note (iii) – Gain on disposal of subsidiary, net | | | | | | |
| Consideration on disposal of subsidiary | * | - | N.M. | * | - | N.M. |
| Add: Net liabilities disposed of | 63,430 | - | N.M. | 63,430 | - | N.M. |
| Less: Waiver of amount due to Yinguang Technology | (33,316) | - | N.M. | (33,316) | - | N.M. |
| Gain on disposal of subsidiary, net | 30,114 | - | N.M. | 30,114 | - | N.M. |

* Consideration on disposal is RMB 1

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 2016 to 30 Sept 2016 | 3 months from 1 Jul 2015 to 30 Sept 2015 | Increase/(Decrease) | 6 months from 1 Apr 2016 to 30 Sept 2016 | 6 months from 1 Apr 2015 to 30 Sept 2015 | Increase/(Decrease) |
| RMB'000 | RMB'000 | % | RMB'000 | RMB'000 | % |

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

| | | | | | | |
|--|---------|---------|--------|---------|---------|---------|
| Allowance for impairment on trade receivables - reversal | 217 | 26 | 734.6 | 389 | 26 | 1396.2 |
| Amortisation expenses | (707) | (634) | 11.5 | (1,478) | (1,267) | 16.7 |
| Depreciation expenses | (4,457) | (4,670) | (4.6) | (9,037) | (9,367) | (3.5) |
| Foreign exchange adjustment gain / (loss) | 14 | 566 | (97.5) | (200) | 531 | (137.7) |
| Gain on disposal of subsidiary, net | 30,114 | - | N.M. | 30,114 | - | N.M. |
| Loss on sale of property, plant and equipment | - | (19) | N.M. | (1,116) | (19) | 5773.7 |
| Interest expense | (1,245) | (1,765) | (29.5) | (2,864) | (3,687) | (22.3) |
| Interest income from bank deposits | 72 | 221 | (67.4) | 330 | 466 | (29.2) |

Statement of comprehensive income

| | | | | | | |
|--|---------------|--------------|---------------|--------------|--------------|------------|
| Profit attributable to shareholders | 21,173 | 1,862 | 1037.1 | 9,392 | 8,955 | 4.9 |
| Foreign currency translation difference | (18) | (180) | (90.0) | 153 | 165 | (7.3) |
| Total comprehensive income for the period | 21,155 | 1,682 | 1157.7 | 9,545 | 9,120 | 4.7 |

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 2016 RMB'000 | 31 March 2016 RMB'000 | 30 Sept 2016 RMB'000 | 31 March 2016 RMB'000 |
| ASSETS | | | | |
| Non-current assets : | | | | |
| Property, plant and equipment | 215,898 | 223,197 | 130 | 44 |
| Other assets, non-current | 76,889 | 89,083 | - | - |
| Investment in subsidiary | - | - | 110,196 | 107,832 |
| Deferred tax assets | 7,455 | 7,514 | - | - |
| Total non-current assets | 300,242 | 319,794 | 110,326 | 107,876 |
| Current assets : | | | | |
| Inventories | 38,692 | 41,820 | - | - |
| Trade and other receivables (Note 1) | 46,076 | 60,320 | 3,722 | 9,034 |
| Other assets, current | 22,400 | 21,640 | 176 | 137 |
| Cash and cash equivalents | 83,909 | 121,036 | 572 | 846 |
| Total current assets | 191,077 | 244,816 | 4,470 | 10,017 |
| Total assets | 491,319 | 564,610 | 114,796 | 117,893 |
| EQUITY AND LIABILITIES | | | | |
| Capital and reserves : | | | | |
| Share capital | 116,849 | 116,849 | 116,849 | 116,849 |
| Retained earnings | 171,725 | 162,333 | (3,213) | 2,671 |
| Other reserves | 89,025 | 88,872 | (2,039) | (4,556) |
| Total equity | 377,599 | 368,054 | 111,597 | 114,964 |
| Non-Current liabilities : | | | | |
| Deferred tax liabilities | 1,725 | 2,365 | - | - |
| Total non-current liabilities | 1,725 | 2,365 | - | - |
| Current liabilities : | | | | |
| Trade and other payables (Note 2) | 71,212 | 101,920 | 3,199 | 2,929 |
| Other financial liabilities, current | 38,000 | 83,663 | - | - |
| Other liabilities | 2,783 | 8,608 | - | - |
| Total current liabilities | 111,995 | 194,191 | 3,199 | 2,929 |
| Total liabilities | 113,720 | 196,556 | 3,199 | 2,929 |
| Total liabilities and equity | 491,319 | 564,610 | 114,796 | 117,893 |
| Note 1 | | | | |
| Trade receivables | 45,360 | 54,955 | - | - |
| Amount receivable from subsidiary | - | - | 3,722 | 9,034 |
| Tax recoverable | 386 | 3,832 | - | - |
| Other receivables | 330 | 1,533 | - | - |
| Trade and other receivables | 46,076 | 60,320 | 3,722 | 9,034 |
| Note 2 | | | | |
| Trade payables and accruals | 48,139 | 79,287 | 2,385 | 2,575 |
| Other payables | 23,073 | 22,633 | 814 | 354 |
| Trade and other payables | 71,212 | 101,920 | 3,199 | 2,929 |

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 2016 | | 31 March 2016 | |
|--------------------------|------------------|----------------------|------------------|
| Secured | Unsecured | Secured | Unsecured |
| 38,000 | - | 70,461 | 13,202 |

Amount repayable after one year

(RMB'000)

| 30 September 2016 | | 31 March 2016 | |
|--------------------------|------------------|----------------------|------------------|
| Secured | Unsecured | Secured | Unsecured |
| - | - | - | - |

Details of any collateral

As at 30 September 2016, the Group has aggregate secured short-term loans from financial institution of RMB 38.0 million.

Secured short-term bank loans of RMB 38.0 million are secured using our subsidiary, Shandong Yinguang Technology Co, Ltd ("Yinguang Technology")'s land and buildings with net book value of approximately RMB 81.8 million. The secured short-term bank loans bear an interest rate of 4.73% 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 2016 to 30 Sept 2016 RMB'000 | 3 months from 1 Jul 2015 to 30 Sept 2015 RMB'000 | 6 months from 1 Apr 2016 to 30 Sept 2016 RMB'000 | 6 months from 1 Apr 2015 to 30 Sept 2015 RMB'000 |
| Cash flows from operating activities | | | | |
| Profit before income tax | 21,354 | 4,331 | 9,798 | 15,984 |
| Adjustments for : | | | | |
| Amortisation expenses | 707 | 634 | 1,478 | 1,267 |
| Allowance for impairment on trade receivables - reversal | (217) | (26) | (389) | (26) |
| Depreciation expense | 4,457 | 4,670 | 9,037 | 9,367 |
| Loss on sale of property, plant and equipments | - | 19 | 1,116 | 19 |
| Provision for safety expenses | 603 | 716 | 1,190 | 1,569 |
| Gain on disposal of subsidiary, net (Note A) | (30,114) | - | (30,114) | - |
| Interest income | (72) | (221) | (330) | (466) |
| Interest expenses | 1,245 | 1,765 | 2,864 | 3,687 |
| Net effect of exchange rate changes in translation of financial statements of Parent | (17) | (179) | 150 | 164 |
| Operating (loss) / profit before working capital changes | (2,054) | 11,709 | (5,200) | 31,565 |
| Inventories | 4,047 | (636) | 1,099 | 15,980 |
| Trade and other receivables | 4,474 | 7,379 | 2,142 | (1,791) |
| Other assets | (4,514) | 1,618 | (5,917) | (4,307) |
| Trade and other payables | 9,345 | (180) | (13,615) | (9,257) |
| Other liabilities | (132) | (953) | (1,360) | (3,101) |
| Cash generated from / (used in) operations | 11,166 | 18,937 | (22,851) | 28,089 |
| Income tax paid | (1) | (3,432) | (1) | (7,247) |
| Net cash from / (used in) operating activities | 11,165 | 15,505 | (22,852) | 21,842 |
| Cash flows from investing activities | | | | |
| Proceeds from sale of property, plant and equipments | - | 27 | 5,025 | 27 |
| Purchase of property, plant and equipments | (6,275) | (2,774) | (8,715) | (4,940) |
| Purchase of land use rights | - | - | (58) | (10,437) |
| Decrease in cash restricted in use | - | - | 30,000 | 7,000 |
| Interest received | 72 | 221 | 330 | 466 |
| Cashflow from disposal of subsidiary (Note A) | (492) | - | (492) | - |
| Net cash (used in) / from investing activities | (6,695) | (2,526) | 26,090 | (7,884) |
| Cash flows from financing activities | | | | |
| Payment of dividends | - | (3,184) | - | (3,184) |
| Proceeds from bank borrowings | 8,000 | 28,900 | 89,890 | 119,391 |
| Repayment of borrowings | (28,900) | (29,000) | (97,391) | (97,500) |
| Interest paid | (1,245) | (1,765) | (2,864) | (3,687) |
| Net cash (used in) / from financing activities | (22,145) | (5,049) | (10,365) | 15,020 |
| Net (decrease) / increase in cash | (17,675) | 7,930 | (7,127) | 28,978 |
| Cash and cash equivalents at beginning of the period | 101,584 | 109,956 | 91,036 | 88,908 |
| Cash and cash equivalents at end of the period (Note B) | 83,909 | 117,886 | 83,909 | 117,886 |

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

| Group | | Group | |
|--|--|--|--|
| 3 months from 1 Jul 2016 to 30 Sept 2016 RMB'000 | 3 months from 1 Jul 2015 to 30 Sept 2015 RMB'000 | 6 months from 1 Apr 2016 to 30 Sept 2016 RMB'000 | 6 months from 1 Apr 2015 to 30 Sept 2015 RMB'000 |

Note A: Disposal of subsidiary

During the current financial period, the book values of net assets of subsidiary disposed were as follows:

| | | | | |
|---|------------|----------|------------|----------|
| Property, plant and equipment | (839) | - | (839) | - |
| Other assets, non-current | (10,774) | - | (10,774) | - |
| Inventories | (2,029) | - | (2,029) | - |
| Trade receivables | (3,716) | - | (3,716) | - |
| Tax recoverable | (3,439) | - | (3,439) | - |
| Other receivables | (5,329) | - | (5,329) | - |
| Other assets, current | (5,157) | - | (5,157) | - |
| Cash and cash equivalents | (492) | - | (492) | - |
| Deferred tax liabilities | 979 | - | 979 | - |
| Trade payables and accruals | 14,984 | - | 14,984 | - |
| Other payables | 2,109 | - | 2,109 | - |
| Due to Yinguang Technology | 33,316 | - | 33,316 | - |
| Other financial liabilities, current | 38,162 | - | 38,162 | - |
| Other liabilities | 5,655 | - | 5,655 | - |
| Net liabilities disposed of | 63,430 | - | 63,430 | - |
| Gain on disposal | 63,430 | - | 63,430 | - |
| Consideration on disposal of subsidiary | * | - | * | - |
| Cash and cash equivalents | 492 | - | 492 | - |
| Cash flow on disposal | 492 | - | 492 | - |

Gain on disposal of subsidiary, net

| | | | | |
|---|---------------|----------|---------------|----------|
| Consideration on disposal of subsidiary | * | - | * | - |
| Add: Net liabilities disposed of | 63,430 | - | 63,430 | - |
| Less: Waiver of amount due to Yinguang Technology | (33,316) | - | (33,316) | - |
| Gain on disposal of subsidiary, net | 30,114 | - | 30,114 | - |

* Consideration on disposal is RMB 1

Note B: Analysis of Cash and cash equivalents

| | | | | |
|---|---------------|----------------|---------------|----------------|
| Cash and cash equivalents | 83,909 | 147,886 | 83,909 | 147,886 |
| Cash restricted in use * | - | (30,000) | - | (30,000) |
| Cash and cash equivalents, statement of cash flows | 83,909 | 117,886 | 83,909 | 117,886 |

* Cash restricted in use is pledged for trading facilities

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 2016 | 116,849 | 44,117 | 44,000 | 755 | 162,333 | 368,054 |
| Appropriation for the period | - | - | - | - | - | - |
| Total comprehensive income/(loss) for the period | - | - | - | 171 | (11,781) | (11,610) |
| Balance at 30 June 2016 | 116,849 | 44,117 | 44,000 | 926 | 150,552 | 356,444 |
| Total comprehensive (loss)/income for the period | - | - | - | (18) | 21,173 | 21,155 |
| Balance at 30 September 2016 | 116,849 | 44,117 | 44,000 | 908 | 171,725 | 377,599 |
| 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 |

| | Share capital | Foreign exchange translation reserve | Retained earnings | Total |
|--|---------------|--------------------------------------|-------------------|---------|
| Company (RMB'000) | | | | |
| Balance at 1 April 2016 | 116,849 | (4,556) | 2,671 | 114,964 |
| Total comprehensive income/(loss) for the period | - | 3,430 | (2,973) | 457 |
| Balance at 30 June 2016 | 116,849 | (1,126) | (302) | 115,421 |
| Total comprehensive loss for the period | - | (913) | (2,911) | (3,824) |
| Balance at 30 September 2016 | 116,849 | (2,039) | (3,213) | 111,597 |
| 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 |

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 2016 | 31 March 2016 |
| Total number of issued shares | 46,800,000 | 46,800,000 |

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

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

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

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

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

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

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

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

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 2016 | 3 months ended 30 Sept 2015 | 6 months ended 30 Sept 2016 | 6 months ended 30 Sept 2015 |
| | 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 | 45.24 | 3.98 | 20.07 | 19.13 |
| Weighted average number of ordinary shares in issue for basic earnings per share | 46,800,000 | 46,800,000 | 46,800,000 | 46,800,000 |

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

7. Net asset value (for the issuer and group) per ordinary share based on issued share capital of the issuer at the end of the :-

- (a) current financial period reported on; and
(b) immediately preceding financial year.

| | Group | | Company | |
|---|--------------|---------------|--------------|---------------|
| | 30 Sept 2016 | 31 March 2016 | 30 Sept 2016 | 31 March 2016 |
| | 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 | 806.84 | 786.44 | 238.46 | 245.65 |
| Number of shares used in calculating net asset value | 46,800,000 | 46,800,000 | 46,800,000 | 46,800,000 |

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

Revenue

Revenue for the 3-month period ended 30 September 2016 ("2Q2017") decreased by approximately RMB 22.8 million or 38.9%, from RMB 58.8 million of the 3-month period ended 30 September 2015 ("2Q2016") to RMB 35.9 million in 2Q2017. The decrease in revenue was mainly due to lower sales across all of our products segments during 2Q2017 as compared to 2Q2016.

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 2Q2017 and 2Q2016 and between the 6-month period ended 30 September 2016 ("6M2017") and the 6-month period ended 30 September 2015 ("6M2016") are as follows:

| | 2Q2017 | | 2Q2016 | | % change |
|--|---------------|--------------|---------------|--------------|---------------|
| | RMB'000 | % | RMB'000 | % | |
| Explosives devices | 6,060 | 16.9 | 23,555 | 40.1 | (74.3) |
| Industrial fuse and initiating explosive devices | 15,960 | 44.4 | 18,948 | 32.2 | (15.8) |
| Industrial detonators | 13,661 | 38.0 | 15,784 | 26.9 | (13.5) |
| Ammonium Nitrate | 54 | 0.2 | 299 | 0.5 | (81.9) |
| Others ⁽¹⁾ | 178 | 0.5 | 167 | 0.3 | 6.6 |
| | 35,913 | 100.0 | 58,753 | 100.0 | (38.9) |
| Within PRC | 30,219 | 84.1 | 39,037 | 66.4 | (22.6) |
| <u>Outside PRC</u> | | | | | |
| Australia | 5,587 | 15.6 | 16,844 | 28.7 | (66.8) |
| Others | 107 | 0.3 | 2,872 | 4.9 | (96.3) |
| | 5,694 | 15.9 | 19,716 | 33.6 | (71.1) |
| | 35,913 | 100.0 | 58,753 | 100.0 | (38.9) |

| | 6M2017 | | 6M2016 | | % change |
|--|---------------|--------------|----------------|--------------|---------------|
| | RMB'000 | % | RMB'000 | % | |
| Explosives devices | 8,258 | 12.1 | 69,011 | 47.5 | (88.0) |
| Industrial fuse and initiating explosive devices | 34,650 | 50.6 | 42,381 | 29.1 | (18.2) |
| Industrial detonators | 25,094 | 36.7 | 32,402 | 22.3 | (22.6) |
| Ammonium Nitrate | 121 | 0.2 | 1,282 | 0.9 | (90.6) |
| Others ⁽¹⁾ | 289 | 0.4 | 312 | 0.2 | (7.4) |
| | 68,412 | 100.0 | 145,388 | 100.0 | (52.9) |
| Within PRC | 61,967 | 90.6 | 86,535 | 59.5 | (28.4) |
| <u>Outside PRC</u> | | | | | |
| Australia | 5,587 | 8.2 | 54,375 | 37.4 | (89.7) |
| Others | 858 | 1.2 | 4,478 | 3.1 | (80.8) |
| | 6,445 | 9.4 | 58,853 | 40.5 | (89.0) |
| | 68,412 | 100.0 | 145,388 | 100.0 | (52.9) |

Note :

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

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 2Q2017, sales within PRC decreased by approximately RMB 8.8 million or 22.6% as compared to 2Q2016. For 6M2017, sales within PRC decreased by approximately RMB 24.6 million or 28.4% as compared to 6M2016. The decline was mainly due to the lower PRC sales across all our product segments and, in particular, our boosters production only resumed on 26 May 2016 after receiving a notification from the relevant authorities.

As mentioned in our previous announcements, the slowdown in China's economic growth and softening of global commodity prices have translated to reduced mining activities in China and as mining related activities accounted for a significant portion of the Group's overall revenue, the Group has been operating under a challenging and volatile business environment.

b) **Sales to Australia**

During 2Q2017 and 6M2017, sales to Australia decreased by approximately RMB 11.3 million or 66.8% and RMB 48.8 million or 89.7% respectively as our boosters production only resumed on 26 May 2016.

c) **Sales to other countries**

During 2Q2017 and 6M2017, sales to other countries decreased by approximately RMB 2.8 million and RMB 3.6 million respectively. Our boosters product segment accounted for majority of the Group's sales to other countries, hence our revenue in this market segment was significantly affected as our boosters production only resumed on 26 May 2016.

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 2Q2017, the Group's gross profit margin decreased to 11.2% from 33.9% and during 6M2017, the Group's gross profit margin decreased to 10.9% from 33.8%. The drop in gross profit margin was mainly due to the temporary stoppage of boosters production during the first 2 months of 1Q2017 and the lower sales recorded across all our product segments due to the challenging and volatile business environment.

Interest income / (Finance costs)

For 2Q2017 and 6M2017, interest income decreased by approximately RMB 149,000 and RMB 136,000, respectively, mainly due to lower average bank deposits during the current period under review.

For 2Q2017 and 6M2017, finance costs decreased by approximately RMB 520,000 and RMB 823,000, respectively, mainly due to lower bank lending interest rate and lower bank loans for the Group after the disposal of Hebei Yinguang Chemical Co., Ltd ("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 gains / (Other losses)

For 2Q2017, other gains relate to foreign exchange adjustment gain of RMB 14,000, government grants of RMB 279,000, net gain on disposal of subsidiary of approximately RMB 30.1 million and a reversal of allowance for impairment on trade receivables of RMB 217,000. 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 6M2017, other gains relate to government grants of RMB 519,000, net gain on disposal of our subsidiary of approximately RMB 30.1 million and a reversal of allowance for impairment on trade receivables of RMB 389,000. 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 6M2017, other losses relate to loss on disposal of property, plant and equipment of RMB 1.1 million and foreign exchange adjustment loss of RMB 200,000. For 2Q2016 and 6M2016, other losses relate to loss on disposal of property, plant and equipment of approximately RMB 19,000.

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.

Net gain on disposal of subsidiary of RMB 30.1 million, after the waiver of amount due to Yinguang Technology, relates to the disposal of Hebei Yinguang that was approved by shareholders during the Extraordinary General Meeting held on 31 August 2016. For more information on the disposal of Hebei Yinguang, please refer to the Company's Circular dated 16 August 2016.

Loss on disposal of property, plant & equipment relates to the disposal of certain motor vehicles and equipment that were no longer in use and determined as part of the Group's cost-cutting measure.

Operating expenses

Corresponding to lower revenue registered in 2Q2017 and 6M2017, the Group's distribution costs decreased by approximately 32.6% and 41.5%, respectively. Administrative expenses also declined by approximately 10.9% and 7.7% for 2Q2017 and 6M2017, respectively as majority of administrative expenses are fixed components. Amortisation expenses increased approximately RMB 73,000 or 11.5% and RMB 211,000 or 16.7% to RMB 707,000 and RMB 1.5 million for 2Q2017 and 6M2017, respectively. The increase in amortization was mainly due to increase in land use rights during the last financial year.

Income tax expenses

The income tax expenses for 2Q2017 and 6M2017 were mainly related to the provision of withholding tax for undistributed profits of the subsidiary to 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 7.3 million, mainly due to the depreciation charged for the current period under review of approximately RMB 9.0 million, the disposal of certain property, plant and equipment of approximately RMB 6.1 million and the disposal of Hebei Yinguang during the current financial period reported on. The decrease was partially offset by the acquisition of property, plant and equipment of approximately RMB 8.7 million.

Other assets, non-current relate to the Group's land use rights, which decreased by approximately RMB 12.2 million mainly due to the disposal of Hebei Yinguang and the amortisation charges of approximately RMB 1.5 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, provision for safety expenses and deferred tax on tax losses incurred.

Inventories, trade and other receivables, other assets and cash and cash equivalents, represented approximately 20.3%, 24.1%, 11.7% and 43.9% respectively of our total current assets as at 30 September 2016.

Inventories decreased by approximately RMB 3.1 million or 7.5% to RMB 38.7 million as at 30 September 2016, as compared to RMB 41.8 million as at 31 March 2016. The decrease was mainly due to the disposal of Hebei Yinguang during the current financial period reported on and the increased usage of raw materials subsequent to the resumption of our boosters production on 26 May 2016.

During the current period under review, trade and other receivables decreased by approximately RMB 14.2 million or 23.6% to RMB 46.1 million as at 30 September 2016, mainly due to the disposal of Hebei Yinguang.

Other assets, current comprising the Group's prepayments, increased marginally by approximately RMB 0.8 million or 3.5% to RMB 22.4 million as at 30 September 2016, despite the decrease from the disposal of Hebei Yinguang. This was mainly due to the increase in prepayment for raw materials.

As at 30 September 2016, our current liabilities comprised of trade and other payables of approximately RMB 71.2 million, other current financial liabilities of approximately RMB 38.0 million and other liabilities of RMB 2.8 million. Non-current liabilities comprised of deferred tax liabilities of RMB 1.7 million.

Trade and other payables decreased by approximately RMB 30.7 million mainly due to the disposal of Hebei Yinguang.

As at 30 September 2016, other current financial liabilities of RMB 38.0 million relates to secured bank loans of Yinguang Technology. The decrease was mainly due to the disposal of Hebei Yinguang and the repayment of certain bank loans that were due during 2Q2017.

Other liabilities of RMB 2.8 million relate to the Group's provision for safety expenses, advances from customers and a deferred government grant. The decrease was mainly due to the disposal of Hebei Yinguang.

Deferred tax liabilities of RMB 1.7 million relates to the deferred tax liabilities for the withholding tax on dividend payable by our subsidiary in China. The decrease was due to the disposal 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)**

Cash flow

For 2Q2017, the Group has net cash from operating activities of approximately RMB 11.2 million, net cash used in investing activities of approximately RMB 6.7 million and net cash used in financing activities of approximately RMB 22.1 million.

For 6M2017, the Group has net cash used in operating activities of approximately RMB 22.9 million, net cash from investing activities of RMB 26.1 million and net cash used in financing activities of approximately RMB 10.4 million.

The net cash from operating activities for 2Q2017 was mainly due to the higher trade and other payables and decrease in inventories and trade and other receivables. The net cash used in operating activities for 6M2017 was mainly due to the repayment of bills payable of RMB 30.0 million that was due during 1Q2017.

The net cash from investing activities of approximately RMB 26.1 million during 6M2017 was mainly due to the decrease in cash restricted in use of RMB 30.0 million and the proceeds from sale of property, plant and equipment of approximately RMB 5.0 million and was partially offset by the acquisition of property, plant and equipment of approximately RMB 8.7 million and the impact on cashflow from the disposal of Hebei Yinguang.

The net cash used in financing activities during 6M2017 was mainly due to the net decrease in bank loans of RMB 7.5 million and the payment of interest expenses.

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

The current second quarter results for the 3-months period ended 30 September 2016 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 2016 and the Circular to Shareholders dated 16 August 2016 on the disposal of Hebei Yinguang.

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.**

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.

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 our boosters production facilities

Announcements issued by the Company on 30 October 2015 and 3 December 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. Subsequently, on 30 November 2015, the Group received a notification from the relevant authorities to resume production of our commercial explosives products, except for boosters production as this product category will require additional safety inspection and clearance by the relevant authorities before the resumption of production.

On 25 May 2016, the Company received the notification from the relevant authorities for the resumption of our automated boosters production and Yinguang Technology's automated production line for boosters had resumed production on 26 May 2016. Yinguang Technology's second automated production line for boosters is in the final stage of inspection.

However, adhering to new safety directives, Yinguang Technology's two manual production lines of boosters will cease production and the Group will likely be converting these two manual production lines into automated production sometime in the future, which would lead to an improvement in product quality and further enhance the safety standards of the boosters' production facilities. This initiative is aligned with the Group's earlier announced plans to step up our boosters automation upgrading program. As a result, the Group's production capacity of boosters will be reduced pending the conversion and completion of the automated production lines.

Thus, we would expect our revenue and profitability to be impacted during this transition period.

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) | |
|--|--------------------------------|---|---------|---|---------|
| | | 2Q2017 | 2Q2016 | 2Q2017 | 2Q2016 |
| Name of interested person | Nature | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Shandong Yinguang Security Services Co., Ltd | Provision of security services | 6,500 | - | - | - |
| Wulian Hanyue Blasting Services Co., Ltd | Sales of commercial explosives | 2,462 | - | - | - |
| Dyno Nobel Australia ⁽¹⁾ | Sales of commercial explosives | - | - | 669 | 3,757 |
| | | 6M2017 | 6M2016 | 6M2017 | 6M2016 |
| Name of interested person | Nature | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Shandong Yinguang Security Services Co., Ltd | Provision of security services | 6,500 | 7,200 | - | - |
| Wulian Hanyue Blasting Services Co., Ltd | Sales of commercial explosives | 2,462 | - | - | - |
| Dyno Nobel Australia ⁽¹⁾ | Sales of commercial explosives | - | - | 669 | 13,203 |

Footnote:

⁽¹⁾ The relevant general mandate was approved at the Extraordinary General Meeting held on 10 November 2011 and was updated and approved at the Annual General Meeting held on 28 July 2016.

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

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

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

On behalf of the Board of Directors of the Company, we, the undersigned, hereby confirm to the best of our knowledge that nothing has come to the attention of the Board of Directors of the Company which may render the unaudited 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
14 NOVEMBER 2016**