



Fabchem China Limited

Company registration number: 200413128G

Financial Statements for the Second Quarter ended 30 September 2017 (“2Q2018”)

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 2017 to 30 Sept 2017 RMB'000	3 months from 1 Jul 2016 to 30 Sept 2016 RMB'000	Increase/(Decrease) %	6 months from 1 Apr 2017 to 30 Sept 2017 RMB'000	6 months from 1 Apr 2016 to 30 Sept 2016 RMB'000	Increase/(Decrease) %
Revenue from continuing operations	49,049	35,859	36.8	97,072	68,291	42.1
Cost of sales	(37,548)	(31,834)	17.9	(75,353)	(60,855)	23.8
Gross profit	11,501	4,025	185.7	21,719	7,436	192.1
Other Items of Income						
Interest income	71	73	(2.7)	141	147	(4.1)
Other gains – Note (i)	122	510	(76.1)	713	915	(22.1)
Other Items of Expense						
Distribution costs	(4,987)	(3,537)	41.0	(10,058)	(6,512)	54.5
Administrative expenses	(7,434)	(7,781)	(4.5)	(15,391)	(16,265)	(5.4)
Financial costs	(902)	(958)	(5.8)	(1,586)	(1,870)	(15.2)
Other losses – Note (ii)	(62)	-	N.M.	(149)	(200)	(25.5)
Loss before tax from continuing operations	(1,691)	(7,668)	(77.9)	(4,611)	(16,349)	(71.8)
Income tax expense	(517)	(184)	181.0	(699)	(416)	68.0
Loss from continuing operations, net of tax	(2,208)	(7,852)	(71.9)	(5,310)	(16,765)	(68.3)
Gain from discontinued operations, net of tax	-	29,025	N.M.	-	26,157	N.M.
(Loss) / Profit after income tax	(2,208)	21,173	N.M.	(5,310)	9,392	N.M.
Note (i) – Other Gains						
Foreign exchange adjustment gain	-	14	N.M.	-	-	N.M.
Gain on disposal of property, plant and equipment	-	-	N.M.	320	7	4471.4
Government Grant	104	279	(62.7)	218	519	(58.0)
Allowance for impairment on trade receivables - reversal	18	217	(91.7)	175	389	(55.0)
	122	510	(76.1)	713	915	(22.1)
Note (ii) – Other Losses						
Foreign exchange adjustment loss	(62)	-	N.M.	(149)	(200)	(25.5)
	(62)	-	N.M.	(149)	(200)	(25.5)

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

Group			Group		
3 months from 1 Jul 2017 to 30 Sept 2017	3 months from 1 Jul 2016 to 30 Sept 2016	Increase/(Decrease)	6 months from 1 Apr 2017 to 30 Sept 2017	6 months from 1 Apr 2016 to 30 Sept 2016	Increase/(Decrease)
RMB'000	RMB'000	%	RMB'000	RMB'000	%

Loss before tax from continuing operations was stated after crediting / (charging) :-

Allowance for impairment on trade receivables - reversal	18	217	(91.7)	175	389	(55.0)
Amortisation expenses	(661)	(662)	(0.2)	(1,322)	(1,362)	(2.9)
Depreciation expenses	(3,850)	(4,449)	(13.5)	(9,034)	(9,013)	0.2
Foreign exchange adjustment (loss) / gain	(62)	14	N.M.	(149)	(200)	(25.5)
Gain on sale of property, plant and equipment	-	-	-	320	7	4471.4
Interest expense	(902)	(958)	(5.8)	(1,586)	(1,870)	(15.2)
Interest income from bank deposits	71	73	(2.7)	141	147	(4.1)

Statement of comprehensive income

(Loss) / Profit after income tax	(2,208)	21,173	N.M.	(5,310)	9,392	N.M.
Foreign currency translation difference	(16)	(18)	(11.1)	(13)	153	N.M.
Total comprehensive (loss) / income for the period	(2,224)	21,155	N.M.	(5,323)	9,545	N.M.

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 2017 RMB'000	31 March 2017 RMB'000	30 Sept 2017 RMB'000	31 March 2017 RMB'000
ASSETS				
Non-current assets :				
Property, plant and equipment	201,690	207,940	95	113
Other assets, non-current	74,244	75,566	-	-
Investment in subsidiary	-	-	110,483	111,150
Deferred tax assets	16,978	17,327	-	-
Total non-current assets	292,912	300,833	110,578	111,263
Current assets :				
Inventories	36,117	35,353	-	-
Trade and other receivables (Note 1)	72,744	61,135	4,616	30
Other assets, current	18,916	20,365	178	143
Cash and cash equivalents	81,218	83,250	639	200
Total current assets	208,995	200,103	5,433	373
Total assets	501,907	500,936	116,011	111,636
EQUITY AND LIABILITIES				
Capital and reserves :				
Share capital	116,849	116,849	116,849	116,849
Retained earnings/(Accumulated losses)	158,045	163,355	(2,730)	(7,816)
Other reserves	88,956	88,969	(1,822)	(1,141)
Total equity	363,850	369,173	112,297	107,892
Non-Current liabilities :				
Deferred tax liabilities	1,875	2,075	-	-
Total non-current liabilities	1,875	2,075	-	-
Current liabilities :				
Withholding tax payable	250	-	-	-
Trade and other payables (Note 2)	73,810	67,489	3,714	3,744
Other financial liabilities, current	59,650	59,650	-	-
Other liabilities	2,472	2,549	-	-
Total current liabilities	136,182	129,688	3,714	3,744
Total liabilities	138,057	131,763	3,714	3,744
Total liabilities and equity	501,907	500,936	116,011	111,636
Note 1				
Trade receivables	65,283	53,284	-	-
Amount receivable from subsidiary	-	-	4,616	30
Other receivables	7,461	7,851	-	-
Trade and other receivables	72,744	61,135	4,616	30
Note 2				
Trade payables and accruals	51,872	45,999	3,086	3,320
Other payables	21,938	21,490	628	424
Trade and other payables	73,810	67,489	3,714	3,744

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 2017		31 March 2017	
Secured	Unsecured	Secured	Unsecured
59,650	-	59,650	-

Amount repayable after one year

(RMB'000)

30 September 2017		31 March 2017	
Secured	Unsecured	Secured	Unsecured
-	-	-	-

Details of any collateral

As at 30 September 2017, the Group has aggregate secured short-term loans from financial institutions of RMB 59.7 million.

Secured short-term bank loans of RMB 59.7 million are secured using our subsidiary, Shandong Yinguang Technology Co., Ltd ("Yinguang Technology")'s land and buildings with net book value of approximately RMB 77.9 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 2017 to 30 Sept 2017 RMB'000	3 months from 1 Jul 2016 to 30 Sept 2016 RMB'000	6 months from 1 Apr 2017 to 30 Sept 2017 RMB'000	6 months from 1 Apr 2016 to 30 Sept 2016 RMB'000
Cash flows from operating activities				
Loss before tax from continuing operations	(1,691)	(7,668)	(4,611)	(16,349)
Adjustments for :				
Amortisation expenses	661	662	1,322	1,362
Allowance for impairment on trade receivables - reversal	(18)	(217)	(175)	(389)
Depreciation expense	3,850	4,449	9,034	9,013
Gain on sale of property, plant and equipments	-	-	(320)	(7)
Provision for safety expenses	669	603	1,334	1,190
Interest income	(71)	(73)	(141)	(147)
Interest expenses	902	958	1,586	1,870
Net effect of exchange rate changes in translation of financial statements of Parent	(15)	(17)	(12)	150
Operating profit / (loss) before working capital changes	4,287	(1,303)	8,017	(3,307)
Inventories	(3,315)	4,047	(764)	1,099
Trade and other receivables	(15,583)	3,960	(11,434)	6,653
Other assets	4,538	(4,510)	1,449	(6,157)
Trade and other payables	(247)	9,384	6,321	14,315
Other liabilities	(921)	(609)	(1,411)	(1,234)
Cash generated (used in) / from operations	(11,241)	10,969	2,178	11,369
Income tax paid	(150)	7	(300)	(1)
Net cash flows (used in) / from operating activities, continuing operations	(11,391)	10,976	1,878	11,368
Net cash flows from / (used in) operating activities, discontinued operating activities	-	189	-	(34,220)
Net cash (used in) / from operating activities	(11,391)	11,165	1,878	(22,852)
Cash flows from investing activities				
Proceeds from sale of property, plant and equipments	-	-	400	265
Purchase of property, plant and equipments	(2,144)	(6,276)	(2,865)	(8,716)
Purchase of land use rights	-	-	-	(58)
Interest received	71	73	141	147
Cashflow from disposal of subsidiary (Note A)	-	(492)	-	(492)
Net cash flows used in investing activities, continuing operations	(2,073)	(6,695)	(2,324)	(8,854)
Net cash flows from discontinued investing activities	-	-	-	34,944
Net cash (used in) / from investing activities	(2,073)	(6,695)	(2,324)	26,090

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 2017 to 30 Sept 2017 RMB'000	3 months from 1 Jul 2016 to 30 Sept 2016 RMB'000	6 months from 1 Apr 2017 to 30 Sept 2017 RMB'000	6 months from 1 Apr 2016 to 30 Sept 2016 RMB'000
Cash flows from financing activities				
Proceeds from bank borrowings	28,000	8,010	38,000	59,900
Repayment of borrowings	(8,000)	(28,900)	(38,000)	(67,400)
Interest paid	(902)	(958)	(1,586)	(1,870)
Net cash flows from / (used in) financing activities, continuing operations	19,098	(21,848)	(1,586)	(9,370)
Net cash flows used in discontinued financing operations	-	(297)	-	(995)
Net cash from / (used in) financing activities	19,098	(22,145)	(1,586)	(10,365)
Net increase / (decrease) in cash	5,634	(17,675)	(2,032)	(7,127)
Cash and cash equivalents at beginning of the period	75,584	101,584	83,250	91,036
Cash and cash equivalents at end of the period	81,218	83,909	81,218	83,909

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	-	(840)	-	(840)
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	-	980	-	980
Trade payables and accruals	-	14,920	-	14,920
Other payables	-	2,109	-	2,109
Other financial liabilities, current	-	38,163	-	38,163
Other liabilities	-	5,718	-	5,718
Net liabilities disposed of	-	30,114	-	30,114
Gain on disposal	-	30,114	-	30,114
Consideration on disposal	-	*	-	*
Cash and cash equivalents	-	492	-	492
Cash flow on disposal	-	492	-	492

* Consideration on disposal is RMB 1

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 2017	116,849	44,117	44,000	852	163,355	369,173
Total comprehensive income/(loss) for the period	-	-	-	3	(3,102)	(3,099)
Balance at 30 June 2017	116,849	44,117	44,000	855	160,253	366,074
Total comprehensive loss for the period	-	-	-	(16)	(2,208)	(2,224)
Balance at 30 September 2017	116,849	44,117	44,000	839	158,045	363,850
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

	Share capital	Foreign exchange translation reserve	(Accumulated losses) / Retained earnings	Total
Company (RMB'000)				
Balance at 1 April 2017	116,849	(1,141)	(7,816)	107,892
Total comprehensive (loss)/income for the period	-	(227)	102	(125)
Balance at 30 June 2017	116,849	(1,368)	(7,714)	107,767
Total comprehensive (loss)/income for the period	-	(454)	4,984	4,530
Balance at 30 September 2017	116,849	(1,822)	(2,730)	112,297
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

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 2017	31 March 2017
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, except for the separate disclosure for continuing and discontinued operation’s consolidated statement of comprehensive income and consolidated statement of cash flows for the reporting period from 1 July 2016 to 30 September 2016 (“2Q2017”) and 1 April 2016 to 30 September 2016 (“6M2017”) which were made to enhance comparability. It is not a restatement of the consolidated statement of comprehensive income and consolidated statement of cash flows for the reporting period for 2Q2017 and 6M2017. There is no change to the figures in the statement of financial position as at 30 September 2016.

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.

Except as disclosed above, there are no material changes in the accounting policies and methods of computation.

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

	Group		Group	
	3 months ended 30 Sept 2017	3 months ended 30 Sept 2016	6 months ended 30 Sept 2017	6 months ended 30 Sept 2016
	RMB cents	RMB cents	RMB cents	RMB cents
Earnings per ordinary share for the year based on net profit attributable to shareholders :				
Based on weighted average number of ordinary shares in issue	(4.72)	45.24	(11.35)	20.07
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 2017	31 March 2017	30 Sept 2017	31 March 2017
	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	777.46	788.83	239.95	230.54
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 from continuing operations for the 3-month period ended 30 September 2017 ("2Q2018") increased by approximately RMB 13.2 million or 36.8%, from RMB 35.9 million of the 3-month period ended 30 September 2016 ("2Q2017") to RMB 49.0 million in 2Q2018. The increase in revenue was mainly due to higher sales of boosters as the Group's second automated boosters production line commenced production in April 2017.

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 (discontinued operation). The breakdown and comparison of our revenue by the above product types and geographical segments between 2Q2018 and 2Q2017 and between the 6-month period ended 30 September 2017 ("6M2018") and the 6-month period ended 30 September 2016 ("6M2017") are as follows:

<u>Business Segments</u>	<u>2Q2018</u>		<u>2Q2017</u>		<u>% change</u>
	<u>RMB'000</u>	<u>%</u>	<u>RMB'000</u>	<u>%</u>	
<u>Continuing operations</u>					
Explosives devices	20,388	41.6	6,060	16.9	236.4
Industrial fuse and initiating explosive devices	11,128	22.7	15,960	44.4	(30.3)
Industrial detonators	17,392	35.4	13,661	38.0	27.3
Others ⁽¹⁾	141	0.3	178	0.5	(20.8)
Total continuing operations	49,049	100.0	35,859	99.8	36.8
<u>Discontinued operation</u>					
Ammonium Nitrate	-	-	54	0.2	N.M.
Total discontinued operation	-	-	54	0.2	N.M.
Consolidated revenue	49,049	100.0	35,913	100.0	36.6
<u>Geographic Segments</u>					
<u>Continuing operations</u>					
Within PRC	30,307	61.8	30,165	84.0	0.5
<u>Outside PRC</u>					
Sales through export distributors ⁽²⁾	4,315	8.8	107	0.3	3932.7
Australia	14,427	29.4	5,587	15.5	158.2
Total continuing operations	49,049	100.0	35,859	99.8	36.8
<u>Discontinued operation</u>					
Within PRC	-	-	54	0.2	N.M.
Total discontinued operation	-	-	54	0.2	N.M.
Consolidated revenue	49,049	100.0	35,913	100.0	36.6

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)

<u>Business Segments</u>	6M2018		6M2017		% change
	RMB'000	%	RMB'000	%	
<u>Continuing operations</u>					
Explosives devices	31,859	32.8	8,258	12.1	285.8
Industrial fuse and initiating explosive devices	31,821	32.8	34,650	50.6	(8.2)
Industrial detonators	33,158	34.2	25,094	36.7	32.1
Others ⁽¹⁾	234	0.2	289	0.4	(19.0)
Total continuing operations	97,072	100.0	68,291	99.8	42.1
<u>Discontinued operation</u>					
Ammonium Nitrate	-	-	121	0.2	N.M.
Total discontinued operation	-	-	121	0.2	N.M.
Consolidated revenue	97,072	100.0	68,412	100.0	41.9

Geographic Segments

Continuing operations

Within PRC	69,994	72.1	61,846	90.4	13.2
<u>Outside PRC</u>					
Sales through export distributors ⁽²⁾	4,315	4.4	107	0.1	3932.7
Australia	22,763	23.5	5,587	8.2	307.4
Other countries	-	-	751	1.1	N.M.
	27,078	27.9	6,445	9.4	320.1
Total continuing operations	97,072	100.0	68,291	99.8	42.1

Discontinued operation

Within PRC	-	-	121	0.2	N.M.
Total discontinued operation	-	-	121	0.2	N.M.

Consolidated revenue	97,072	100.0	68,412	100.0	41.9
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Notes :

- (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.

a) **Sales within PRC**

During 2Q2018, sales within PRC increased marginally by approximately RMB 142,000 or 0.5% as compared to 2Q2017. For 6M2018, sales within PRC increased by approximately RMB 8.1 million or 13.2% as compared to 6M2017. The increment was mainly due to the higher PRC sales of boosters and industrial detonators, partially offset by lower sales of industrial fuse and initiating explosive devices.

b) **Sales through export distributors**

During 2Q2018 and 6M2018, sales through export distributors increased by RMB 4.2 million from RMB 107,000 during 2Q2017 and 6M2017 to RMB 4.3 million during 2Q2018 and 6M2018, mainly due to the commencement of the second automated boosters production line in April 2017.

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)

c) **Sales to Australia**

During 2Q2018 and 6M2018, sales to Australia increased significantly by approximately RMB 8.8 million or 158.2% and RMB 17.2 million or 307.4% respectively as the exports of our boosters increased with our production resuming on 26 May 2016 and our second automated boosters production line commencing production in April 2017.

d) **Sales to other countries**

During 6M2017, sales to other countries amounts to RMB 751,000. There were no sales to other countries during 2Q2018 and 6M2018 mainly due to different delivery schedules.

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 2Q2018, the Group's gross profit margin increased to 23.4% from 11.2% and during 6M2018, the Group's gross profit margin increased to 22.4% from 10.9%. The increase is mainly due to the normalisation of the Group's production and sales activities during the current period under review.

Interest income / (Finance costs)

For 2Q2018 and 6M2018, interest income remained relatively unchanged at RMB 71,000 and RMB 141,000, respectively.

During 2Q2018, finance costs remained relatively stable at RMB 902,000. For 6M2018, finance costs decreased by approximately RMB 284,000 mainly due to lower average bank loans for the Group during 1Q2018 as mentioned in the first quarter results announcement.

Other gains / (Other losses)

For 2Q2018, other gains relate to government grants of RMB 104,000 and a reversal of allowance for impairment on trade receivables of RMB 18,000. For 2Q2017, other gains relate to foreign exchange adjustment gain of RMB 14,000, government grants of RMB 279,000 and reversal of allowance for impairment on trade receivables of RMB 217,000.

For 6M2018, other gains relate to gain on disposal of property, plant and equipment of approximately RMB 320,000, government grants of RMB 218,000 and reversal of allowance for impairment on trade receivables of RMB 175,000. For 6M2017, other gains relate to gain on disposal of property, plant and equipment of approximately RMB 7,000, government grants of approximately RMB 519,000 and reversal of allowance for impairment on trade receivables of RMB 389,000. Gain on disposal of property, plant & equipment relates to the disposal of certain motor vehicles and machineries that were no longer in use. Government grants relate to the miscellaneous grants from governments on an ad hoc basis and the grant for certain plant and equipment which will be amortised over 3 years.

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) (Cont'd)

For 2Q2018, other losses relate to foreign exchange adjustment loss of approximately RMB 62,000. For 6M2018 and 6M2017, other losses relate to foreign exchange adjustment loss of RMB 149,000 and RMB 200,000, respectively.

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 higher revenue registered in 2Q2018 and 6M2018, the Group's distribution costs also increased by approximately 41.0% and 54.5%, respectively. The Group also incurred higher freight and port charges due to increased export sales during the current periods under review.

For 2Q2018 and 6M2018, administrative expenses decreased slightly by approximately RMB 348,000 or 4.5% and RMB 874,000 or 5.4%, respectively as majority of the administrative expenses are fixed components.

For 6M2018, amortisation and depreciation expenses remained relatively stable at RMB 1.3 million and RMB 9.0 million, respectively.

Income tax expenses

The income tax expenses for 2Q2018 and 6M2018 were mainly related to the provision of withholding tax for undistributed profits of the subsidiary to the Group as well as the income tax expenses on the taxable profits of the subsidiary.

Statement of Financial Position

Property, plant and equipment decreased by approximately RMB 6.3 million, mainly due to the depreciation charged for the current period under review of approximately RMB 9.0 million and disposal of certain property, plant and equipment, which was partially offset by the acquisition of property, plant and equipment of approximately RMB 2.9 million.

Other assets, non-current relate to the Group's land use rights, which decreased by approximately RMB 1.3 million due to the amortisation charges 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. Deferred tax assets decreased mainly due to the utilisation of deferred tax assets on tax losses on the taxable profits for the current period under review.

Inventories, trade and other receivables, other assets and cash and cash equivalents, represented approximately 17.3%, 34.8%, 9.0% and 38.9% respectively of our total current assets as at 30 September 2017.

Inventories increased by approximately RMB 0.8 million or 2.2% to RMB 36.1 million as at 30 September 2017, as compared to RMB 35.4 million as at 31 March 2017. The increase in inventories was mainly due to higher raw materials, partially offset by the lower level of finished goods at the end of the period under review.

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 (Cont'd)

During the current period under review, trade and other receivables increased by approximately RMB 11.6 million or 19.0% to RMB 72.7 million as at 30 September 2017. The increment in trade and other receivables was mainly due to the higher sales activities during the current quarter under review.

Other assets, current comprising the Group's prepayments, decreased by approximately RMB 1.4 million or 7.1% to RMB 18.9 million as at 30 September 2017.

As at 30 September 2017, our current liabilities comprised of withholding tax payable of RMB 250,000, trade and other payables of approximately RMB 73.8 million, other current financial liabilities of approximately RMB 59.7 million and other liabilities of RMB 2.5 million. Non-current liabilities comprised of deferred tax liabilities of RMB 1.9 million.

Withholding tax payable of RMB 250,000 relates to the withholding tax payable to China tax authority for the declaration of dividend by our China subsidiary to Singapore holding company.

Trade and other payables increased by approximately RMB 6.3 million mainly due to the increase in production activities and operations during the current period under review.

As at 30 September 2017, other current financial liabilities of RMB 59.7 million relates to the secured bank loans of Yinguang Technology.

As at 30 September 2017, other liabilities of RMB 2.5 million relate to the Group's provision for safety expenses, advances from customers and a deferred government grant.

Deferred tax liabilities of RMB 1.9 million relate to the deferred tax liabilities for the withholding tax on the dividend payable by our subsidiary in China.

Cash flow

For 2Q2018, the Group has net cash used in operating activities of approximately RMB 11.4 million, net cash used in investing activities of approximately RMB 2.1 million and net cash from financing activities of approximately RMB 19.1 million.

For 6M2018, the Group has net cash from operating activities of approximately RMB 1.9 million, net cash used in investing activities of RMB 2.3 million and net cash used in financing activities of approximately RMB 1.6 million.

The net cash used in operating activities for 2Q2018 was mainly due to the higher trade and other receivables and increased in inventories during the period under review due to increase in production and sales activities. Net cash from operating activities for 6M2018 amounts to approximately RMB 1.9 million.

The net cash used in investing activities of approximately RMB 2.1 million and RMB 2.3 million during 2Q2018 and 6M2018, respectively were mainly due to the acquisition of property, plant and equipment.

The net cash from financing activities of approximately RMB 19.1 million during 2Q2018 was mainly due to net increase in borrowings of approximately RMB 20.0 million, partially offset by the payment of interest expenses. The net cash used in financing activities of approximately RMB 1.6 million during 6M2018 was due to 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 2017 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 2017.

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.**

Update on our boosters production facilities

As previously announced, Yinguang Technology's second automated boosters production line has successfully passed the relevant authority's inspection and was approved for trial production during April 2017. However, this second automated boosters production line may require a few months to scale up its production capabilities.

As a result of the cessation of the two manual boosters production lines, our revenue and profitability will continue to be affected, however, with the commencement of the second automated boosters production line, the impact should be mitigated going forward, barring any unforeseen circumstances.

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)	
		2Q2018	2Q2017	2Q2018	2Q2017
Name of interested person	Nature	RMB'000	RMB'000	RMB'000	RMB'000
Dyno Nobel ⁽¹⁾	Sales of commercial explosives	-	-	3,398	669
Shandong Yinguang Security Services Co., Ltd ⁽²⁾	Provision of security services	-	6,500	-	-
Wulian Hanyue Blasting Services Co., Ltd ⁽²⁾	Sales of commercial explosives	-	2,462	274	-
		6M2018	6M2017	6M2018	6M2017
Name of interested person	Nature	RMB'000	RMB'000	RMB'000	RMB'000
Dyno Nobel ⁽¹⁾	Sales of commercial explosives	-	-	7,548	669
Shandong Yinguang Security Services Co., Ltd ⁽²⁾	Provision of security services	6,500	6,500	-	-
Wulian Hanyue Blasting Services Co., Ltd ⁽²⁾	Sales of commercial explosives	5,060	2,462	273	-

Footnotes:

⁽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 31 July 2017.

⁽²⁾ The relevant general mandate was approved at the Extraordinary General Meeting held on 31 July 2017, thus only transactions after 31 July 2017 will be considered under general mandate.

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
13 NOVEMBER 2017**