



## Fabchem China Limited

Company registration number: 200413128G

Financial Statements for the Second Quarter ended 30 September 2019 (“2Q2020”)

### 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 2019 to 30 Sept 2019 RMB'000	3 months from 1 Jul 2018 to 30 Sept 2018 RMB'000	Increase/(Decrease) %	6 months from 1 Apr 2019 to 30 Sept 2019 RMB'000	6 months from 1 Apr 2018 to 30 Sept 2018 RMB'000	Increase/(Decrease) %
<b>Revenue</b>	27,624	40,868	(32.4)	56,963	85,944	(33.7)
Cost of sales	(19,796)	(31,966)	(38.1)	(41,102)	(71,074)	(42.2)
<b>Gross profit</b>	7,828	8,902	(12.1)	15,861	14,870	6.7
<b><u>Other Items of Income</u></b>						
Interest income	56	73	(23.3)	126	149	(15.4)
Other gains – Note (i)	997	1,179	(15.4)	1,327	1,625	(18.3)
<b><u>Other Items of Expense</u></b>						
Distribution costs	(4,607)	(4,749)	(3.0)	(7,693)	(9,103)	(15.5)
Administrative expenses	(6,701)	(7,350)	(8.8)	(13,988)	(13,991)	-
Financial costs	(988)	(1,201)	(17.7)	(2,263)	(2,292)	(1.3)
<b>Loss before tax</b>	(3,415)	(3,146)	N.M.	(6,630)	(8,742)	N.M.
Income tax expense	(175)	(545)	(67.9)	(350)	(719)	(51.3)
<b>Loss after income tax</b>	(3,590)	(3,691)	N.M.	(6,980)	(9,461)	N.M.
<b>Note (i) – Other Gains</b>						
Foreign exchange adjustment gain	104	558	(81.4)	131	753	(82.6)
Gain on disposal of property, plant and equipment	20	-	N.M.	20	-	N.M.
Gain on disposal of assets held for sale	631	-	N.M.	631	-	N.M.
Government grants	183	105	74.3	211	211	-
Allowance for impairment on trade receivables - reversal	59	516	(88.6)	334	661	(49.5)
	997	1,179	(15.4)	1,327	1,625	(18.3)

**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 2019 to 30 Sept 2019	3 months from 1 Jul 2018 to 30 Sept 2018	Increase/(Decrease)	6 months from 1 Apr 2019 to 30 Sept 2019	6 months from 1 Apr 2018 to 30 Sept 2018	Increase/(Decrease)
RMB'000	RMB'000	%	RMB'000	RMB'000	%

**Loss before tax was stated after crediting / (charging) :-**

Allowance for impairment on trade receivables - reversal	59	516	(88.6)	334	661	(49.5)
Amortisation expenses	(601)	(686)	(12.4)	(1,002)	(1,384)	(27.6)
Depreciation expenses	(1,465)	(4,633)	(68.4)	(2,791)	(9,327)	(70.1)
Foreign exchange adjustment gain	104	558	(81.4)	131	753	(82.6)
Gain on sale of property, plant and equipment	20	-	N.M.	20	-	N.M.
Gain on sale of assets held for sale	631	-	N.M.	631	-	N.M.
Interest expense	(988)	(1,201)	(17.7)	(2,263)	(2,292)	(1.3)
Interest income from bank deposits	56	73	(23.3)	126	149	(15.4)

**Statement of comprehensive income**

<b>Loss after income tax</b>	(3,590)	(3,691)	N.M.	(6,980)	(9,461)	N.M.
Foreign currency translation difference	(20)	6	N.M.	10	29	N.M.
<b>Total comprehensive loss for the period</b>	<b>(3,610)</b>	<b>(3,685)</b>	N.M.	<b>(6,970)</b>	<b>(9,432)</b>	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	
	Unaudited 30 September 2019 RMB'000	Audited 31 March 2019 RMB'000	Unaudited 30 September 2019 RMB'000	Audited 31 March 2019 RMB'000
<b>ASSETS</b>				
<b>Non-current assets :</b>				
Property, plant and equipment	102,507	101,680	-	-
Other assets, non-current	61,239	62,241	-	-
Investment in subsidiary	-	-	116,418	111,608
Deferred tax assets	15,756	15,756	-	-
<b>Total non-current assets</b>	<b>179,502</b>	<b>179,677</b>	<b>116,418</b>	<b>111,608</b>
<b>Current assets :</b>				
Assets held for sales	-	3,053	-	-
Inventories	25,559	22,912	-	-
Trade and other receivables (Note 1)	24,814	31,018	229	4,738
Other assets, current	18,915	13,127	196	199
Cash and cash equivalents	70,529	83,207	191	804
<b>Total current assets</b>	<b>139,817</b>	<b>153,317</b>	<b>616</b>	<b>5,741</b>
<b>Total assets</b>	<b>319,319</b>	<b>332,994</b>	<b>117,034</b>	<b>117,349</b>
<b>EQUITY AND LIABILITIES</b>				
<b>Capital and reserves :</b>				
Share capital	116,849	116,849	116,849	116,849
Accumulated losses	(20,581)	(13,601)	(6,536)	(1,802)
Other reserves	88,998	88,988	4,157	(664)
<b>Total equity</b>	<b>185,266</b>	<b>192,236</b>	<b>114,470</b>	<b>114,383</b>
<b>Non-Current liabilities :</b>				
Deferred tax liabilities	2,525	2,175	-	-
Other payables, non-current (Note 2)	20,157	19,508	-	-
<b>Total non-current liabilities</b>	<b>22,682</b>	<b>21,683</b>	<b>-</b>	<b>-</b>
<b>Current liabilities :</b>				
Withholding tax payable	-	250	-	-
Trade and other payables (Note 2)	59,707	56,453	2,564	2,966
Other financial liabilities, current	40,000	58,000	-	-
Other liabilities	11,664	4,372	-	-
<b>Total current liabilities</b>	<b>111,371</b>	<b>119,075</b>	<b>2,564</b>	<b>2,966</b>
<b>Total liabilities</b>	<b>134,053</b>	<b>140,758</b>	<b>2,564</b>	<b>2,966</b>
<b>Total liabilities and equity</b>	<b>319,319</b>	<b>332,994</b>	<b>117,034</b>	<b>117,349</b>
<b>Note 1</b>				
Trade receivables	22,968	29,276	-	-
Amount receivable from subsidiary	-	-	229	4,738
Other receivables	1,846	1,742	-	-
<b>Total trade and other receivables</b>	<b>24,814</b>	<b>31,018</b>	<b>229</b>	<b>4,738</b>
<b>Note 2</b>				
Trade payables and accruals	55,645	53,963	1,688	1,938
Other payables	4,062	2,490	876	1,028
<b>Total trade and other payables, current</b>	<b>59,707</b>	<b>56,453</b>	<b>2,564</b>	<b>2,966</b>
Other payables, non-current	20,157	19,508	-	-
<b>Total trade and other payables</b>	<b>79,864</b>	<b>75,961</b>	<b>2,564</b>	<b>2,966</b>

**1(b)(ii) Aggregate amount of group's borrowings and debt securities**

**Amount repayable in one year or less, or on demand**

**(RMB'000)**

<b>30 September 2019</b>		<b>31 March 2019</b>	
<b>Secured</b>	<b>Unsecured</b>	<b>Secured</b>	<b>Unsecured</b>
40,000	-	59,650	-

**Amount repayable after one year**

**(RMB'000)**

<b>30 September 2019</b>		<b>31 March 2019</b>	
<b>Secured</b>	<b>Unsecured</b>	<b>Secured</b>	<b>Unsecured</b>
-	-	-	-

**Details of any collateral**

As at 30 September 2019, the Group has aggregate secured short-term loans from financial institutions of RMB 40.0 million.

Secured short-term loans of RMB 40.0 million are secured using our subsidiary, Shandong Yinguang Technology Co., Ltd ("Yinguang Technology")'s land and buildings with net book value of approximately RMB 63.6 million. The secured short-term loans bear interest rate 4.35% to 4.785% 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 2019 to 30 Sept 2019 RMB'000	3 months from 1 Jul 2018 to 30 Sept 2018 RMB'000	6 months from 1 Apr 2019 to 30 Sept 2019 RMB'000	6 months from 1 Apr 2018 to 30 Sept 2018 RMB'000
<b>Cash flows from operating activities</b>				
Loss before tax	(3,415)	(3,146)	(6,630)	(8,742)
Adjustments for :				
Amortisation expenses	601	686	1,002	1,384
Allowance for impairment on trade receivables - reversal	(59)	(516)	(334)	(661)
Depreciation expense	1,465	4,633	2,791	9,327
Gain on sale of property, plant and equipment	(20)	-	(20)	-
Gain on sale of assets held for sales	(631)	-	(631)	-
Provision for safety expenses	563	630	1,135	1,279
Interest income	(56)	(73)	(126)	(149)
Interest expenses	988	1,201	2,263	2,292
Net effect of exchange rate changes in translation of financial statements of Parent	(20)	4	10	26
Operating (loss) / profit before working capital changes	(584)	3,419	(540)	4,756
Inventories	(254)	5,166	(2,647)	4,916
Trade and other receivables	673	5,437	6,537	12,869
Other assets	(4,778)	(2,967)	(5,788)	(7,375)
Trade and other payables	2,446	1,203	3,254	(261)
Other liabilities	3,136	3,039	6,157	1,649
Cash generated from operations	639	15,297	6,973	16,554
Income tax paid	-	-	(250)	(250)
<b>Net cash flows from operating activities</b>	<b>639</b>	<b>15,297</b>	<b>6,723</b>	<b>16,304</b>
<b>Cash flows from investing activities</b>				
Proceeds from sale of property, plant and equipment	20	-	20	-
Proceeds from sale of assets held for sale	3,685	-	3,685	-
Purchase of property, plant and equipment	(675)	(2,514)	(3,618)	(5,735)
Interest received	56	73	126	149
<b>Net cash flows from / (used in) investing activities</b>	<b>3,086</b>	<b>(2,441)</b>	<b>213</b>	<b>(5,586)</b>
<b>Cash flows from financing activities</b>				
Proceeds from bank borrowings	-	8,000	30,000	38,000
Repayment of borrowings	(18,000)	(8,000)	(48,000)	(38,000)
Interest paid	(663)	(897)	(1,614)	(1,684)
<b>Net cash used in financing activities</b>	<b>(18,663)</b>	<b>(897)</b>	<b>(19,614)</b>	<b>(1,684)</b>
Net (decrease) / increase in cash	(14,938)	11,959	(12,678)	9,034
Cash and cash equivalents at beginning of the period	85,467	86,093	83,207	89,018
<b>Cash and cash equivalents at end of the period</b>	<b>70,529</b>	<b>98,052</b>	<b>70,529</b>	<b>98,052</b>

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

	Share capital	Statutory reserves	Capital reserve	Foreign exchange translation reserves	Retained earnings	Total
<b>Group (RMB'000)</b>						
Balance at 1 April 2019	116,849	44,117	44,000	871	(13,601)	192,236
Total comprehensive loss for the period	-	-	-	30	(3,390)	(3,360)
Balance at 30 June 2019	116,849	44,117	44,000	901	(16,991)	188,876
Total comprehensive loss for the period	-	-	-	(20)	(3,590)	(3,610)
Balance at 30 September 2019	116,849	44,117	44,000	881	(20,581)	185,266
Balance at 1 April 2018	116,849	44,117	44,000	835	143,527	349,328
Appropriation for the period	-	-	-	-	-	-
Total comprehensive loss for the period	-	-	-	23	(5,770)	(5,747)
Balance at 30 June 2018	116,849	44,117	44,000	858	137,757	343,581
Total comprehensive loss for the period	-	-	-	6	(3,691)	(3,685)
Balance at 30 September 2018	116,849	44,117	44,000	864	134,066	339,896

	Share capital	Foreign exchange translation reserve	Accumulated losses	Total
<b>Company (RMB'000)</b>				
Balance at 1 April 2019	116,849	(664)	(1,802)	114,383
Total comprehensive income for the period	-	2,836	(2,708)	128
Balance at 30 June 2019	116,849	2,172	(4,510)	114,511
Total comprehensive loss for the period	-	1,985	(2,026)	(41)
Balance at 30 September 2019	116,849	4,157	(6,536)	114,470
Balance at 1 April 2018	116,849	(4,377)	(6,539)	105,933
Total comprehensive income for the period	-	1,586	2,347	3,933
Balance at 30 June 2018	116,849	(2,791)	(4,192)	109,866
Total comprehensive income for the period	-	3,724	2,288	6,012
Balance at 30 September 2018	116,849	933	(1,904)	115,878

**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.**

	<b>Group</b>	
	<b>30 September 2019</b>	<b>31 March 2019</b>
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.

**1(d)(v) A statement showing all sales, transfers, cancellation and/or use of subsidiary holdings as at the end of the current financial period reported on.**

There is no sale, transfer, disposal, cancellation and/or use of subsidiary holdings 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 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 2019	3 months ended 30 Sept 2018	6 months ended 30 Sept 2019	6 months ended 30 Sept 2018
	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	(7.67)	(7.89)	(14.91)	(20.22)
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 2019	31 March 2019	30 Sept 2019	31 March 2019
	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	395.87	410.76	244.59	244.41
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 2019 ("2Q2020") decreased by approximately RMB 13.2 million or 32.4%, from RMB 40.9 million of the 3-month period ended 30 September 2018 ("2Q2019") to RMB 27.6 million in 2Q2020, as lower sales were registered in all of our product segments. In particular, sales of explosive devices and industrial fuse and initiating explosive devices decreased by 48.8% and 28.4% respectively during the period under review.

Sales of explosive devices decreased mainly due to the temporary shortage of explosives raw materials which affected our production schedule and lowering our production of explosive devices. Sales of industrial fuse and initiating explosive devices decreased as some of our customers' mining operations were affected by additional safety measures implemented by the local authorities since the second quarter of FY2018, as disclosed in our earlier announcements.

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; and (c) industrial detonators such as non-electric detonators and piston non-electric detonators. The breakdown and comparison of our revenue by the above product types and geographical segments between 2Q2020 and 2Q2019 and between the 6-month period ended 30 September 2019 ("6M2020") and the 6-month period ended 30 September 2018 ("6M2019") are as follows:

<b><u>Business Segments</u></b>	<b>2Q2020</b>		<b>2Q2019</b>		<b>% change</b>
	<b>RMB'000</b>	<b>%</b>	<b>RMB'000</b>	<b>%</b>	
Explosives devices	9,697	35.1	18,937	46.3	(48.8)
Industrial fuse and initiating explosive devices	5,287	19.1	7,387	18.1	(28.4)
Industrial detonators	12,640	45.8	14,541	35.6	(13.1)
Others <sup>(1)</sup>	-	-	3	-	-
<b>Total revenue</b>	<b>27,624</b>	<b>100.0</b>	<b>40,868</b>	<b>100.0</b>	<b>(32.4)</b>

**Geographic Segments**

Within PRC	22,796	82.5	23,928	58.5	(4.7)
<b><u>Outside PRC</u></b>					
Sales through export distributors <sup>(2)</sup>	492	1.8	4,975	12.2	(90.1)
Australia	4,336	15.7	11,965	29.3	(63.8)
	4,828	17.5	16,940	41.5	(71.5)
<b>Total revenue</b>	<b>27,624</b>	<b>100.0</b>	<b>40,868</b>	<b>100.0</b>	<b>(32.4)</b>

<b><u>Business Segments</u></b>	<b>6M2020</b>		<b>6M2019</b>		<b>% change</b>
	<b>RMB'000</b>	<b>%</b>	<b>RMB'000</b>	<b>%</b>	
Explosives devices	20,122	35.3	37,594	43.8	(46.5)
Industrial fuse and initiating explosive devices	11,251	19.8	17,703	20.6	(36.4)
Industrial detonators	25,587	44.9	30,449	35.4	(16.0)
Others <sup>(1)</sup>	3	-	198	0.2	(98.5)
<b>Total revenue</b>	<b>56,963</b>	<b>100.0</b>	<b>85,944</b>	<b>100.0</b>	<b>(33.7)</b>

**Geographic Segments**

Within PRC	45,879	80.5	52,704	61.3	(12.9)
<b><u>Outside PRC</u></b>					
Sales through export distributors <sup>(2)</sup>	492	0.9	15,760	18.3	(96.9)
Australia	10,592	18.6	17,169	20.0	(38.3)
Other countries	-	-	311	0.4	N.M.
	11,084	19.5	33,240	38.7	(66.7)
<b>Total revenue</b>	<b>56,963</b>	<b>100.0</b>	<b>85,944</b>	<b>100.0</b>	<b>(33.7)</b>

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.

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 2Q2020, sales within PRC decreased by approximately RMB 1.1 million or 4.7% as compared to 2Q2019. For 6M2020, sales within PRC decreased by approximately RMB 6.8 million or 12.9% as compared to 6M2019. The decline in PRC sales was mainly due to lower sales of industrial fuse and initiating explosive devices as mentioned earlier.

b) **Sales through export distributors, Sales to Australia and Sales to other countries**

During 2Q2020 and 6M2020, sales through export distributors decreased by RMB 4.5 million or 90.1% and RMB 15.3 million or 96.9% respectively as compared to 2Q2019 and 6M2019.

During 2Q2020 and 6M2020, sales to Australia decreased by approximately RMB 7.6 million or 63.8% and RMB 6.6 million or 38.3% respectively.

During 2Q2020 and 6M2020, there were no sales to other countries.

The decrease in our sales revenue for 2Q2020 and 6M2020 were mainly due to the temporarily shortage of explosives raw materials which affected our production schedule for the manufacturing of explosives devices, in particular boosters which were the main products which the Group exports to overseas customers.

All domestic PRC sales contracts and export applications sought by export agents have been approved by the Ministry of Industry and Information Technology, Department of Work Safety ("MIIT").

**Gross profit margin**

During 2Q2020, the Group's gross profit margin improved by approximately 6.5 percentage points, from 21.8% in 2Q2019 to 28.3% in 2Q2020. During 6M2020, the Group's gross profit margin improved by approximately 10.5 percentage points, from 17.3% during 6M2019 to 27.8% in 6M2020. With the impairment allowance made on the property, plant and equipment during the last financial year, depreciation expenses which were charged to costs of sales decreased significantly during 2Q2020 and 6M2020, resulting in the improvement of the Group's gross profit margin.

**Interest income / (Finance costs)**

For 2Q2020 and 6M2020, the Group's interest income decreased by approximately RMB 17,000 or 23.3% and RMB 23,000 or 15.4% respectively, due to lower average cash held in banks. Lower average cash held in banks were due to repayment of short-term bank loans due during the current period under review.

During 2Q2020 and 6M2020, finance costs decreased by approximately RMB 213,000 and RMB 29,000 respectively mainly due to the repayment of short-term bank loans due during the current 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)**

#### **Other gains**

For 2Q2020, other gains relate to foreign exchange adjustment gain of RMB 104,000, gain on disposal of property, plant and equipment of RMB 20,000, gain on disposal of assets held for sale of approximately RMB 631,000, government grants of RMB 183,000 and a reversal of allowance for impairment on trade receivables of RMB 59,000. For 2Q2019, other gains relate to foreign exchange adjustment gain of approximately RMB 558,000, government grants of RMB 105,000 and a reversal of allowance for impairment on trade receivables of RMB 516,000.

For 6M2020, other gains relate to foreign exchange adjustment gain of RMB 131,000, gain on disposal of property, plant and equipment of approximately RMB 20,000, gain on disposal of assets held for sale of approximately RMB 631,000, government grants of RMB 211,000 and reversal of allowance for impairment on trade receivables of RMB 334,000. For 6M2019, other gains relate to foreign exchange adjustment gain of approximately RMB 753,000, government grants of approximately RMB 211,000 and reversal of allowance for impairment on trade receivables of RMB 611,000.

Gain on disposal of property, plant & equipment relates to the disposal of certain machineries that were no longer in use.

Gain on disposal of assets held for sales relates to disposal gain on sale of those assets held for sale as at 31 March 2019.

Government grants relate to ad hoc government grants for various purposes including safety awareness.

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

#### **Operating expenses**

Corresponding to lower revenue registered in 2Q2020 and 6M2020, the Group's distribution costs also decreased by approximately 3.0% and 15.5% respectively.

For 2Q2020, the Group's administrative expenses decreased by approximately 8.8%. There was no material difference for administrative expenses during 6M2020 as compared to 6M2019 as majority of the administrative expenses are fixed components.

For 2Q2020 and 6M2020, amortisation expenses decreased mainly due to disposal of land use rights during the last financial year.

For 2Q2020 and 6M2020, depreciation expenses decreased by approximately RMB 3.2 million or 68.4% and RMB 6.5 million or 70.1% due to the impairment allowance made on the property, plant and equipment during the last financial year.

#### **Income tax expenses**

The income tax expenses for 2Q2020 and 6M2020 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 increased by approximately RMB 0.8 million, mainly due to purchases of property, plant and equipment during the current period under review, partially offset by the depreciation charged for the current period under review.

Other assets, non-current relate to the Group's land use rights, which decreased by approximately RMB 1.0 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.

Inventories, trade and other receivables, other assets and cash and cash equivalents, represented approximately 18.3%, 17.8%, 13.5% and 50.4% respectively of our total current assets as at 30 September 2019.

Assets held for sales of approximately RMB 3.1 million as at 31 March 2019 was sold during 2Q2020.

Inventories increased by approximately RMB 2.6 million or 11.6% to RMB 25.6 million as at 30 September 2019, as compared to RMB 22.9 million as at 31 March 2019. The increase in inventories was due to more finished goods as at 30 September 2019 pending delivery to customers.

During the current 6 months under review, trade and other receivables decreased by approximately RMB 6.2 million or 20.0% to RMB 24.8 million as at 30 September 2019 due mainly to recovery of debts from trade customers.

Other assets, current comprising the Group's prepayments, increased by approximately RMB 5.8 million or 44.1% to RMB 18.9 million as at 30 September 2019. The increment was mainly due to an increase in advance payment to suppliers to secure the necessary raw materials for production.

Non-current liabilities relates to the long-term payable at amortised cost for the purchase of office property from a related party which was approved during the Extraordinary General Meeting on 31 July 2017 of approximately RMB 20.2 million and deferred tax liabilities of RMB 2.5 million for the withholding tax on the dividend payable by our subsidiary in China.

As at 30 September 2019, our current liabilities comprised of trade and other payables of approximately RMB 59.7 million, other current financial liabilities of approximately RMB 40.0 million and other liabilities of RMB 11.7 million.

Trade and other payables, current increased marginally by approximately RMB 3.3 million or 5.8% during 6M2020.

As at 30 September 2019, other current financial liabilities of RMB 40.0 million relates to the secured bank loans of Yinguang Technology. The decrease was mainly due to the repayment of RMB 18.0 million of short-term bank loans due during the current period under review.

Other liabilities of approximately RMB 11.7 million relate to the Group's provision for safety expenses and advances from customers. The increase of approximately RMB 7.3 million from approximately RMB 4.4 million as at 31 March 2019 to approximately RMB 11.7 million as at 30 September 2019 is mainly due to more advances from customers for the purchase of our commercial explosives products.

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 2Q2020, the Group has net cash from operating activities and investing activities of approximately RMB 639,000 and RMB 3.1 million respectively, while net cash used in financing activities was approximately RMB 18.7 million.

For 6M2020, the Group has net cash from operating activities and investing activities of approximately RMB 6.7 million and RMB 213,000, while net cash used in financing activities was approximately RMB 19.6 million.

The net cash from operating activities for 2Q2020 and 6M2020 was mainly due to higher trade and other payables and other liabilities but partially offset by the increase in prepayments to suppliers for raw materials during the period under review.

The net cash from investing activities of approximately RMB 3.1 million and RMB 213,000 during 2Q2020 and 6M2020 respectively were mainly due to the proceeds from the sale of certain assets held for sale.

The net cash used in financing activities during 2Q2020 and 6M2020 was due to the repayment of bank borrowings due during the current period under review 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 2019 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 2019.

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, for safety measures and precautions, the management is gradually scaling up the production capabilities of this second automated boosters production line. As our automated boosters production line is developed based on our own in-house technology with no other comparable, we are constantly monitoring and calibrating the technology to improve safety and production efficiency, hence it is difficult for the Group to estimate the duration required to fully scale-up the second production line given the sensitive product-nature of commercial explosives.

As more calibration and testing are required, the progress of our Group's third automated boosters production line is expected to be further delayed and completion is targeted by the end of our current financial year, i.e. before 31 March 2020.

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)**

*Mergers and Acquisitions*

Since 2017, the PRC government has begun to rationalise the commercial explosives industry by encouraging companies within this specialized and niche market segment to merge and consolidate their business operations. Aligned with this government policy and to meet the various requirements of the MTP Exit Criteria under Rule 1314(2) of the SGX-ST's Listing Manual, the Group is proactively exploring merger and acquisition opportunities in the PRC.

On 18 June 2018, the Company announced the proposed acquisition of Shandong Laizhou Ping'an Commercial Explosives Co., Ltd. ("Laizhou Ping'an"). On 31 January 2019, the Company released an announcement to update the status of the acquisition. For more information on the proposed acquisition of Laizhou Ping'an, please refer to the announcement on 18 June 2018 and 31 January 2019.

The Company will continue to make the appropriate announcements as and when there is any material development with respect to any potential material acquisition.

11. **Dividend**

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

**Any dividend declared for the current financial period reported on?**

None.

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

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

None.

(c) ***Date payable***

Not applicable.

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

Not applicable.

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

No dividend has been declared/recommendeded for the current financial period reported on as the Company is making losses.

### 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)	
		2Q2020	2Q2019	2Q2020	2Q2019
Name of interested person	Nature	RMB'000	RMB'000	RMB'000	RMB'000
Dyno Nobel <sup>(1)</sup>	Sales of commercial explosives	-	-	-	10,148
Shandong Yinguang Security Services Co., Ltd <sup>(2)</sup>	Provision of security services	-	-	-	-
Wulian Hanyue Blasting Services Co., Ltd <sup>(2)</sup>	Sales of commercial explosives	-	-	-	493
		6M2020	6M2019	6M2020	6M2019
Name of interested person	Nature	RMB'000	RMB'000	RMB'000	RMB'000
Dyno Nobel <sup>(1)</sup>	Sales of commercial explosives	-	-	-	10,148
Shandong Yinguang Security Services Co., Ltd <sup>(2)</sup>	Provision of security services	-	-	6,200	6,200
Wulian Hanyue Blasting Services Co., Ltd <sup>(2)</sup>	Sales of commercial explosives	-	-	-	1,903

Footnotes:

- <sup>(1)</sup> 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 2018. Transactions with Dyno Nobel will cease to be considered as Interested Person Transactions after the divestment of shares by DNX Australia Pty Ltd on 15 March 2019.
- <sup>(2)</sup> The relevant general mandate was approved at the Extraordinary General Meeting held on 31 July 2017 and was updated and approved at the Annual General Meeting held on 31 July 2019.

**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 2<sup>nd</sup> quarter financial statements set out above to be false or misleading in any material aspect.

For and On behalf of the Board of Directors

Bao Hongwei  
Managing Director

Sun Bowen  
Director

**BY ORDER OF THE BOARD  
BAO HONGWEI  
MANAGING DIRECTOR  
14 NOVEMBER 2019**