



Fabchem China Limited

Company registration number: 200413128G

Financial Statements for the Second Quarter ended 30 September 2018 (“2Q2019”)

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 2018 to 30 Sept 2018 RMB'000	3 months from 1 Jul 2017 to 30 Sept 2017 RMB'000	Increase/(Decrease) %	6 months from 1 Apr 2018 to 30 Sept 2018 RMB'000	6 months from 1 Apr 2017 to 30 Sept 2017 RMB'000	Increase/(Decrease) %
Revenue	40,868	49,049	(16.7)	85,944	97,072	(11.5)
Cost of sales	(31,966)	(37,548)	(14.9)	(71,074)	(75,353)	(5.7)
Gross profit	8,902	11,501	(22.6)	14,870	21,719	(31.5)
<u>Other Items of Income</u>						
Interest income	73	71	2.8	149	141	5.7
Other gains – Note (i)	1,179	122	866.4	1,625	713	127.9
<u>Other Items of Expense</u>						
Distribution costs	(4,749)	(4,987)	(4.8)	(9,103)	(10,058)	(9.5)
Administrative expenses	(7,350)	(7,434)	(1.1)	(13,991)	(15,391)	(9.1)
Financial costs	(1,201)	(902)	33.1	(2,292)	(1,586)	44.5
Other losses – Note (ii)	-	(62)	N.M.	-	(149)	N.M.
Loss before tax	(3,146)	(1,691)	86.0	(8,742)	(4,611)	89.6
Income tax expense	(545)	(517)	5.4	(719)	(699)	2.9
Loss after income tax	(3,691)	(2,208)	67.2	(9,461)	(5,310)	78.2
Note (i) – Other Gains						
Foreign exchange adjustment gain	558	-	N.M.	753	-	N.M.
Gain on disposal of property, plant and equipment	-	-	-	-	320	N.M.
Government Grant	105	104	1.0	211	218	(3.2)
Allowance for impairment on trade receivables - reversal	516	18	2766.7	661	175	277.7
	1,179	122	866.4	1,625	713	127.9
Note (ii) – Other Losses						
Foreign exchange adjustment loss	-	(62)	N.M.	-	(149)	N.M.
	-	(62)	N.M.	-	(149)	N.M.

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 2018	3 months from 1 Jul 2017 to 30 Sept 2017	Increase/(Decrease)	6 months from 1 Apr 2017 to 30 Sept 2018	6 months from 1 Apr 2017 to 30 Sept 2017	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	516	18	2766.7	661	175	277.7
Amortisation expenses	(686)	(661)	3.8	(1,384)	(1,322)	4.7
Depreciation expenses	(4,633)	(3,850)	20.3	(9,327)	(9,034)	3.2
Foreign exchange adjustment (loss) / gain	558	(62)	N.M.	753	(149)	N.M.
Gain on sale of property, plant and equipment	-	-	-	-	320	N.M.
Interest expense	(1,201)	(902)	33.1	(2,292)	(1,586)	44.5
Interest income from bank deposits	73	71	2.8	149	141	5.7

Statement of comprehensive income

Loss after income tax	(3,691)	(2,208)	67.2	(9,461)	(5,310)	78.2
Foreign currency translation difference	6	(16)	N.M.	29	(13)	N.M.
Total comprehensive loss for the period	(3,685)	(2,224)	65.7	(9,432)	(5,323)	77.2

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 Sept 2018 RMB'000	Audited 31 March 2018 RMB'000	Unaudited 30 Sept 2018 RMB'000	Audited 31 March 2018 RMB'000
ASSETS				
Non-current assets :				
Property, plant and equipment	224,597	228,186	63	76
Other assets, non-current	78,867	80,251	-	-
Investment in subsidiary	-	-	113,213	107,931
Deferred tax assets	18,070	18,189	-	-
Total non-current assets	321,534	326,626	113,276	108,007
Current assets :				
Inventories	27,152	32,068	-	-
Trade and other receivables (Note 1)	42,520	54,728	4,489	78
Other assets, current	16,643	9,268	140	136
Cash and cash equivalents	98,052	89,018	1,093	358
Total current assets	184,367	185,082	5,722	572
Total assets	505,901	511,708	118,998	108,579
EQUITY AND LIABILITIES				
Capital and reserves :				
Share capital	116,849	116,849	116,849	116,849
Retained earnings/(Accumulated losses)	134,066	143,527	(1,904)	(6,539)
Other reserves	88,981	88,952	933	(4,377)
Total equity	339,896	349,328	115,878	105,933
Non-Current liabilities :				
Deferred tax liabilities	2,325	2,225	-	-
Other payables, non-current (Note 2)	18,901	18,293	-	-
Total non-current liabilities	21,226	20,518	-	-
Current liabilities :				
Withholding tax payable	250	-	-	-
Trade and other payables (Note 2)	77,394	77,655	3,120	2,646
Other financial liabilities, current	59,650	59,650	-	-
Other liabilities	7,485	4,557	-	-
Total current liabilities	144,779	141,862	3,120	2,646
Total liabilities	166,005	162,380	3,120	2,646
Total liabilities and equity	505,901	511,708	118,998	108,579
Note 1				
Trade receivables	40,522	53,174	-	-
Amount receivable from subsidiary	-	-	4,489	78
Other receivables	1,998	1,554	-	-
Trade and other receivables	42,520	54,728	4,489	78
Note 2				
Trade payables and accruals	54,754	58,120	1,962	2,262
Other payables	22,640	19,535	1,158	384
Trade and other payables, current	77,394	77,655	3,120	2,646
Other payables, non-current	18,901	18,293	-	-
Trade and other payables	96,295	95,948	3,120	2,646

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 2018		31 March 2018	
Secured	Unsecured	Secured	Unsecured
59,650	-	59,650	-

Amount repayable after one year

(RMB'000)

30 September 2018		31 March 2018	
Secured	Unsecured	Secured	Unsecured
-	-	-	-

Details of any collateral

As at 30 September 2018, 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 73.0 million. The secured short-term loans bear interest rate 4.816% to 5.0895% 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 2018 to 30 Sept 2018 RMB'000	3 months from 1 Jul 2017 to 30 Sept 2017 RMB'000	6 months from 1 Apr 2018 to 30 Sept 2018 RMB'000	6 months from 1 Apr 2017 to 30 Sept 2017 RMB'000
Cash flows from operating activities				
Loss before tax	(3,146)	(1,691)	(8,742)	(4,611)
Adjustments for :				
Amortisation expenses	686	661	1,384	1,322
Allowance for impairment on trade receivables - reversal	(516)	(18)	(661)	(175)
Depreciation expense	4,633	3,850	9,327	9,034
Gain on sale of property, plant and equipments	-	-	-	(320)
Provision for safety expenses	630	669	1,279	1,334
Interest income	(73)	(71)	(149)	(141)
Interest expenses	1,201	902	2,292	1,586
Net effect of exchange rate changes in translation of financial statements of Parent	4	(15)	26	(12)
Operating profit before working capital changes	3,419	4,287	4,756	8,017
Inventories	5,166	(3,315)	4,916	(764)
Trade and other receivables	5,437	(15,583)	12,869	(11,434)
Other assets	(2,967)	4,538	(7,375)	1,449
Trade and other payables	1,203	(247)	(261)	6,321
Other liabilities	3,039	(921)	1,649	(1,411)
Cash generated from / (used in) operations	15,297	(11,241)	16,554	2,178
Income tax paid	-	(150)	(250)	(300)
Net cash flows from / (used in) operating activities	15,297	(11,391)	16,304	1,878
Cash flows from investing activities				
Proceeds from sale of property, plant and equipments	-	-	-	400
Purchase of property, plant and equipments	(2,514)	(2,144)	(5,735)	(2,865)
Interest received	73	71	149	141
Net cash flows used in investing activities	(2,441)	(2,073)	(5,586)	(2,324)
Cash flows from financing activities				
Proceeds from bank borrowings	8,000	28,000	38,000	38,000
Repayment of borrowings	(8,000)	(8,000)	(38,000)	(38,000)
Interest paid	(897)	(902)	(1,684)	(1,586)
Net cash (used in) / from financing activities	(897)	19,098	(1,684)	(1,586)
Net increase / (decrease) in cash	11,959	5,634	9,034	(2,032)
Cash and cash equivalents at beginning of the period	86,093	75,584	89,018	83,250
Cash and cash equivalents at end of the period	98,052	81,218	98,052	81,218

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 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
Balance at 1 April 2017	116,849	44,117	44,000	852	163,355	369,173
Total comprehensive 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

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

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 2018	31 March 2018
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 2018	3 months ended 30 Sept 2017	6 months ended 30 Sept 2018	6 months ended 30 Sept 2017
	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	(7.89)	(4.72)	(20.22)	(11.35)
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 2018	31 March 2018	30 Sept 2018	31 March 2018
	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	726.27	746.43	247.60	226.35
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 2018 ("2Q2019") decreased by approximately RMB 8.2 million or 16.7%, from RMB 49.0 million of the 3-month period ended 30 September 2017 ("2Q2018") to RMB 40.9 million in 2Q2019. The lower revenue was mainly due to lower sales registered across the Group's product categories.

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 2Q2019 and 2Q2018 and between the 6-month period ended 30 September 2018 ("6M2019") and the 6-month period ended 30 September 2017 ("6M2018") are as follows:

<u>Business Segments</u>	2Q2019		2Q2018		% change
	RMB'000	%	RMB'000	%	
Explosives devices	18,937	46.3	20,388	41.6	(7.1)
Industrial fuse and initiating explosive devices	7,387	18.1	11,128	22.7	(33.6)
Industrial detonators	14,541	35.6	17,392	35.4	(16.4)
Others ⁽¹⁾	3	-	141	0.3	(97.9)
Total revenue	40,868	100.0	49,049	100.0	(16.7)

Geographic Segments

Within PRC	23,928	58.5	30,307	61.8	(21.0)
<u>Outside PRC</u>					
Sales through export distributors ⁽²⁾	4,975	12.2	4,315	8.8	15.3
Australia	11,965	29.3	14,427	29.4	(17.1)
	16,940	41.5	18,742	38.2	(9.6)
Total revenue	40,868	100.0	49,049	100.0	(16.7)

<u>Business Segments</u>	6M2019		6M2018		% change
	RMB'000	%	RMB'000	%	
Explosives devices	37,594	43.8	31,859	32.8	18.0
Industrial fuse and initiating explosive devices	17,703	20.6	31,821	32.8	(44.4)
Industrial detonators	30,449	35.4	33,158	34.2	(8.2)
Others ⁽¹⁾	198	0.2	234	0.2	(15.4)
Total revenue	85,944	100.0	97,072	100.0	(11.5)

Geographic Segments

Within PRC	52,704	61.3	69,994	72.1	(24.7)
<u>Outside PRC</u>					
Sales through export distributors ⁽²⁾	15,760	18.3	4,315	4.4	265.2
Australia	17,169	20.0	22,763	23.5	(24.6)
Other countries	311	0.4	-	-	N.M.
	33,240	38.7	27,078	27.9	22.8
Total revenue	85,944	100.0	97,072	100.0	(11.5)

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 2Q2019, sales within PRC decreased by approximately RMB 6.4 million or 21.0% as compared to 2Q2018. For 6M2019, sales within PRC decreased by approximately RMB 17.3 million or 24.7% as compared to 6M2018. The decline in sales within PRC was mainly due to The Shanghai Cooperation Organisation meeting in Qingdao during June 2018, where commercial explosive manufacturers in the Shandong province were given directives by the authorities to cease production temporary and as a result, our subsidiary had to temporarily cease production for about 10 days during June 2018 given the nature of our products.

b) **Sales through export distributors**

During 2Q2019 and 6M2019, sales through export distributors increased by RMB 0.7 million or 15.3% and RMB 11.4 million or 265.2% respectively as compared to 2Q2018 and 6M2018. The increase was mainly due to more shipments to overseas customers through export distributor during the current period under review.

c) **Sales to Australia**

During 2Q2019 and 6M2019, sales to Australia decreased by approximately RMB 2.5 million or 17.1% and RMB 5.6 million or 24.6% respectively. The lower sales to Australia was mainly due to the timing of scheduled shipments of boosters to Australia customers.

d) **Sales to other countries**

During 6M2019, sales to other countries registered revenue of approximately RMB 311,000. There was no sale to other countries during 6M2018.

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

Due to higher market competition and lower sales of industrial fuse and initiating explosive devices during 2Q2019 and 6M2019, the Group's gross profit margins declined by approximately 1.7 percentage points to 21.8% and 5.1 percentage points to 17.3% respectively. The dip in gross profit margins was also attributed to the temporary cease production directive because of The Shanghai Cooperation Organisation meeting in Qingdao during June 2018 as mentioned above.

Interest income / (Finance costs)

For 2Q2019 and 6M2019, interest income remained relatively stable at RMB 73,000 and RMB 149,000, respectively.

During 2Q2019 and 6M2019, finance costs increased by approximately RMB 299,000 and RMB 706,000 mainly due to imputed interest expense on financial liabilities measured at amortised cost and higher bank lending interest rates in the general market 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 / (Other losses)

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 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 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. 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. 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 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.

For 2Q2019 and 6M2019, other losses relate to foreign exchange adjustment loss.

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 2Q2019 and 6M2019, the Group's distribution costs also decreased by approximately 4.8% and 9.5%, respectively.

For 2Q2019 and 6M2019, administrative expenses decreased by approximately 1.1% and 9.1%, respectively as majority of the administrative expenses are fixed components.

For 2Q2019 and 6M2019, amortisation expenses remained relatively stable at RMB 686,000 and RMB 1.4 million, respectively.

For 2Q2019 and 6M2019, depreciation expenses increased by approximately RMB 783,000 or 20.3% and RMB 293,000 or 3.2% respectively. The increase is mainly due to the additional depreciation charged on the office property which was acquired during the last financial year as approved during the Extraordinary General Meeting on 31 July 2017, partially offset by certain property, plant and equipment being fully depreciated during the current period under review.

Income tax expenses

The income tax expenses for 2Q2019 and 6M2019 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.

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 3.6 million, mainly due to the depreciation charged for the current period under review of approximately RMB 9.3 million which was partially offset by the acquisition of property, plant and equipment of approximately RMB 5.7 million.

Other assets, non-current relate to the Group's land use rights, which decreased by approximately RMB 1.4 million mainly 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 14.7%, 23.1%, 9.0% and 53.2% respectively of our total current assets as at 30 September 2018.

Inventories decreased by approximately RMB 4.9 million or 15.3% to RMB 27.2 million as at 30 September 2018, as compared to RMB 32.1 million as at 31 March 2018. The decrease in inventories is mainly to lower finished goods as at 30 September 2018.

During the current quarter under review, trade and other receivables decreased by approximately RMB 12.2 million or 22.3% to RMB 42.5 million as at 30 September 2018.

Other assets, current comprising the Group's prepayments, increased by approximately RMB 7.4 million or 79.6% to RMB 16.6 million as at 30 September 2018 mainly due to higher prepayments for raw materials as at 30 September 2018.

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 18.9 million and deferred tax liabilities of RMB 2.3 million for the withholding tax on the dividend payable by our subsidiary in China.

As at 30 September 2018, our current liabilities comprised of withholding tax payable of RMB 250,000, trade and other payables of approximately RMB 77.4 million, other current financial liabilities of approximately RMB 59.7 million and other liabilities of RMB 7.5 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, current decreased marginally by approximately RMB 261,000 or 0.3% during 6M2019.

As at 30 September 2018, other current financial liabilities of RMB 59.7 million relates to the secured bank loans of Yinguang Technology.

Other liabilities of RMB 7.5 million relate to the Group's provision for safety expenses, advances from customers and a deferred government grant. The increase of approximately RMB 2.9 million is mainly due to increase in advances from customers of approximately RMB 3.0 million.

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 2Q2019, the Group has net cash from operating activities of approximately RMB 15.3 million and net cash used in investing activities and financing activities of approximately RMB 2.4 million and RMB 897,000 respectively.

For 6M2018, the Group has net cash from operating activities of approximately RMB 16.3 million and net cash used in investing activities and financing activities of approximately RMB 5.6 million RMB 1.7 million respectively.

The net cash from operating activities for 2Q2019 and 6M2019 was mainly due to the lower trade and other receivables and decreased in inventories during the period under review.

The net cash used in investing activities of approximately RMB 2.4 million and RMB 5.6 million during 2Q2019 and 6M2019, respectively were mainly due to the acquisition of property, plant and equipment.

The net cash used in financing activities during 2Q2019 and 6M2019 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 2018 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 2018.

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 will be gradually scaling up the production capabilities of this second automated boosters production line.

The Group has also started the design of our third automated boosters production line and barring any unforeseen circumstances, construction is expected to complete by the end of FY2019.

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"). For more information on the proposed acquisition of Laizhou Ping'an, please refer to the announcement on 18 June 2018.

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.

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)	
		2Q2019	2Q2018	2Q2019	2Q2018
Name of interested person	Nature	RMB'000	RMB'000	RMB'000	RMB'000
Dyno Nobel ⁽¹⁾	Sales of commercial explosives	-	-	10,148	3,398
Shandong Yinguang Security Services Co., Ltd ⁽²⁾	Provision of security services	-	-	-	-
Wulian Hanyue Blasting Services Co., Ltd ⁽²⁾	Sales of commercial explosives	-	-	493	273
		6M2019	6M2018	6M2019	6M2018
Name of interested person	Nature	RMB'000	RMB'000	RMB'000	RMB'000
Dyno Nobel ⁽¹⁾	Sales of commercial explosives	-	-	10,148	7,548
Shandong Yinguang Security Services Co., Ltd ⁽²⁾	Provision of security services	-	6,500	6,200	-
Wulian Hanyue Blasting Services Co., Ltd ⁽²⁾	Sales of commercial explosives	-	5,060	1,903	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 2018.
- ⁽²⁾ 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 2018.

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

Bao Hongwei
Managing Director

Sun Bowen
Director

**BY ORDER OF THE BOARD
BAO HONGWEI
MANAGING DIRECTOR
14 NOVEMBER 2018**