



Fabchem China Limited

Company registration number: 200413128G

Financial Statements for the Third Quarter ended 31 December 2016 (“3Q2017”)

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 Oct 2016 to 31 Dec 2016 RMB'000	3 months from 1 Oct 2015 to 31 Dec 2015 RMB'000	Increase/(Decrease) %	9 months from 1 Apr 2016 to 31 Dec 2016 RMB'000	9 months from 1 Apr 2015 to 31 Dec 2015 RMB'000	Increase/(Decrease) %
Revenue	38,360	37,448	2.4	106,772	182,836	(41.6)
Cost of sales	(31,990)	(32,905)	(2.8)	(92,955)	(129,122)	(28.0)
Gross profit	6,370	4,543	40.2	13,817	53,714	(74.3)
Other Items of Income						
Interest income	72	228	(68.4)	402	694	(42.1)
Other gains – Note (i)	431	264	63.3	31,213	1,173	2561.0
Other Items of Expense						
Distribution costs	(5,569)	(4,291)	29.8	(12,188)	(15,596)	(21.9)
Administrative expenses	(8,823)	(9,896)	(10.8)	(27,025)	(29,612)	(8.7)
Financial costs	(958)	(1,761)	(45.6)	(3,822)	(5,448)	(29.8)
Other losses – Note (ii)	(3,878)	(7,215)	(46.3)	(4,954)	(7,069)	(29.9)
Loss before income tax	(12,355)	(18,128)	(31.8)	(2,557)	(2,144)	(19.3)
Income tax (expense) / income	(205)	1,361	(115.1)	(611)	(5,668)	(89.2)
Loss attributable to shareholders	(12,560)	(16,767)	(25.1)	(3,168)	(7,812)	(59.4)
Note (i) – Other Gains						
Allowance for impairment on trade receivables - reversal	63	127	(50.4)	452	153	195.4
Foreign exchange adjustment gain	-	-	-	-	366	N.M.
Gain on disposal of property, plant and equipment	240	-	N.M.	-	-	-
Gain on disposal of subsidiary, net – Note (iii)	-	-	-	30,114	-	N.M.
Government Grant	128	137	(6.6)	647	654	(1.1)
	431	264	63.3	31,213	1,173	2561.0
Note (ii) – Other Losses						
Allowance for impairment on trade receivables	(3,592)	(7,041)	(49.0)	(3,592)	(7,041)	(49.0)
Foreign exchange adjustment loss	(286)	(165)	73.3	(486)	-	N.M.
Loss on disposal of property, plant and equipment	-	(9)	N.M.	(876)	(28)	3028.6
	(3,878)	(7,215)	(46.3)	(4,954)	(7,069)	(29.9)
Note (iii) – Gain on disposal of subsidiary, net						
Consideration on disposal of subsidiary	-	-	-	*	-	N.M.
Add: Net liabilities disposed of	-	-	-	63,430	-	N.M.
Less: Waiver of amount due to Yinguang Technology	-	-	-	(33,316)	-	N.M.
Gain on disposal of subsidiary, net	-	-	-	30,114	-	N.M.

* Consideration on disposal is RMB 1

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. (Cont'd)

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

	Group			Group		
	3 months from 1 Oct 2016 to 31 Dec 2016 RMB'000	3 months from 1 Oct 2015 to 31 Dec 2015 RMB'000	Increase/(Decrease) %	9 months from 1 Apr 2016 to 31 Dec 2016 RMB'000	9 months from 1 Apr 2015 to 31 Dec 2015 RMB'000	Increase/(Decrease) %
Allowance for impairment on trade receivables - reversal	63	127	(50.4)	452	153	195.4
Amortisation expenses	(662)	(890)	(25.6)	(2,140)	(2,157)	(0.8)
Depreciation expenses	(4,455)	(5,359)	(16.9)	(13,492)	(14,726)	(8.4)
Foreign exchange adjustment (loss)/gain	(286)	(165)	73.3	(486)	366	(232.8)
Gain on disposal of subsidiary, net	-	-	-	30,114	-	N.M.
Gain / (Loss) on disposal of property, plant and equipment	240	(9)	N.M.	(876)	(28)	3028.6
Interest expense	(958)	(1,761)	(45.6)	(3,822)	(5,448)	(29.8)
Interest income from bank deposits	72	228	(68.4)	402	694	(42.1)
Allowance for impairment on trade receivables	(3,592)	(7,041)	(49.0)	(3,592)	(7,041)	(49.0)

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 Oct 2016 to 31 Dec 2016 RMB'000	3 months from 1 Oct 2015 to 31 Dec 2015 RMB'000	Increase/(Decrease) %	9 months from 1 Apr 2016 to 31 Dec 2016 RMB'000	9 months from 1 Apr 2015 to 31 Dec 2015 RMB'000	Increase/(Decrease) %
Loss attributable to shareholders	(12,560)	(16,767)	(25.1)	(3,168)	(7,812)	(59.4)
Foreign currency translation difference	(10)	324	N.M.	(143)	489	N.M.
Total comprehensive loss for the period	<u>(12,570)</u>	<u>(16,443)</u>	(23.6)	<u>(3,311)</u>	<u>(7,323)</u>	(54.8)

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	
	31 Dec 2016 RMB'000	31 March 2016 RMB'000	31 Dec 2016 RMB'000	31 March 2016 RMB'000
ASSETS				
Non-current assets :				
Property, plant and equipment	211,239	223,197	119	44
Other assets, non-current	76,227	89,083	-	-
Investment in subsidiary	-	-	108,199	107,832
Deferred tax assets	7,424	7,514	-	-
Total non-current assets	294,890	319,794	108,318	107,876
Current assets :				
Inventories	40,364	41,820	-	-
Trade and other receivables (Note 1)	43,950	60,320	1,280	9,034
Other assets, current	23,588	21,640	123	137
Cash and cash equivalents	93,856	121,036	237	846
Total current assets	201,758	244,816	1,640	10,017
Total assets	496,648	564,610	109,958	117,893
EQUITY AND LIABILITIES				
Capital and reserves :				
Share capital	116,849	116,849	116,849	116,849
Retained earnings	159,165	162,333	(5,661)	2,671
Other reserves	89,015	88,872	(4,046)	(4,556)
Total equity	365,029	368,054	107,142	114,964
Non-Current liabilities :				
Deferred tax liabilities	1,900	2,365	-	-
Total non-current liabilities	1,900	2,365	-	-
Current liabilities :				
Trade and other payables (Note 2)	67,422	101,920	2,816	2,929
Other financial liabilities, current	59,650	83,663	-	-
Other liabilities	2,647	8,608	-	-
Total current liabilities	129,719	194,191	2,816	2,929
Total liabilities	131,619	196,556	2,816	2,929
Total liabilities and equity	496,648	564,610	109,958	117,893
Note 1				
Trade receivables	42,370	54,955	-	-
Amount receivable from subsidiary	-	-	1,280	9,034
Tax recoverable	386	3,832	-	-
Other receivables	1,194	1,533	-	-
Trade and other receivables	43,950	60,320	1,280	9,034
Note 2				
Trade payables and accruals	45,061	79,287	2,570	2,575
Other payables	22,361	22,633	246	354
Trade and other payables	67,422	101,920	2,816	2,929

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

Amount repayable in one year or less, or on demand

(RMB'000)

31 December 2016		31 March 2016	
Secured	Unsecured	Secured	Unsecured
59,650	-	70,461	13,202

Amount repayable after one year

(RMB'000)

31 December 2016		31 March 2016	
Secured	Unsecured	Secured	Unsecured
-	-	-	-

Details of any collateral

As at 31 December 2016, the Group has aggregate secured short-term loans from financial institution 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 81.5 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 Oct 2016 to 31 Dec 2016 RMB'000	3 months from 1 Oct 2015 to 31 Dec 2015 RMB'000	9 months from 1 Apr 2016 to 31 Dec 2016 RMB'000	9 months from 1 Apr 2015 to 31 Dec 2015 RMB'000
Cash flows from operating activities				
Loss before income tax	(12,355)	(18,128)	(2,557)	(2,144)
Adjustments for :				
Amortisation expenses	662	890	2,140	2,157
Depreciation expense	4,455	5,359	13,492	14,726
(Gain) / Loss on disposal of property, plant and equipment	(240)	9	876	28
Allowance for impairment on trade receivables	3,592	7,041	3,592	7,041
Interest expenses	958	1,761	3,822	5,448
Interest income	(72)	(228)	(402)	(694)
Provision for safety expenses	616	609	1,806	2,178
Gain on disposal of subsidiary, net	-	-	(30,114)	-
Write back of allowance for impairment on trade receivables	(62)	(127)	(451)	(153)
Net effect of exchange rate changes in translation of financial statements of Parent	(11)	322	143	486
Operating (loss) / profit before working capital changes	(2,457)	(2,492)	(7,653)	29,073
Inventories	(1,672)	6,964	(573)	22,944
Trade and other receivables	(1,404)	26,599	738	24,808
Other assets	(1,188)	475	(7,105)	(3,832)
Trade and other payables	(3,790)	(4,268)	(17,405)	(12,916)
Other liabilities	(752)	27	(2,112)	(3,683)
Cash generated from operations	(11,263)	27,305	(34,110)	56,394
Income tax paid	1	(2,358)	-	(9,605)
Net cash (used in) / from operating activities	(11,262)	24,947	(34,110)	46,789
Cash flows from investing activities				
Proceeds from disposal of property, plant and equipment	1,316	52	6,341	79
Purchase of property, plant and equipment	(871)	(623)	(9,590)	(5,563)
Purchase of land use rights	-	-	(58)	(10,437)
Decrease in cash restricted in use	-	-	30,000	7,000
Interest received	72	228	402	694
Cashflow from disposal of subsidiary (Note A)	-	-	(492)	-
Net cash from / (used in) investing activities	517	(343)	26,603	(8,227)
Cash flows from financing activities				
Payment of dividends	-	-	-	(3,184)
Proceeds from bank borrowings	21,650	-	111,540	119,391
Repayment of borrowings	-	-	(97,391)	(97,500)
Interest paid	(958)	(1,761)	(3,822)	(5,448)
Net cash from / (used in) financing activities	20,692	(1,761)	10,327	13,259
Net increase in cash	9,947	22,843	2,820	51,821
Cash and cash equivalents at beginning of the period	83,909	117,886	91,036	88,908
Cash and cash equivalents at end of the period (Note B)	93,856	140,729	93,856	140,729

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 Oct 2016 to 31 Dec 2016 RMB'000	3 months from 1 Oct 2015 to 31 Dec 2015 RMB'000	9 months from 1 Apr 2016 to 31 Dec 2016 RMB'000	9 months from 1 Apr 2015 to 31 Dec 2015 RMB'000

Note A: Disposal of subsidiary

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

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

Gain on disposal of subsidiary, net

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

* Consideration on disposal is RMB 1

Note B: Analysis of Cash and cash equivalents

Cash and cash equivalents	93,856	170,729	93,856	170,729
Cash restricted in use *	-	(30,000)	-	(30,000)
Cash and cash equivalents, statement of cash flows	93,856	140,729	93,856	140,729

* Cash restricted in use is pledged for trading facilities

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

	Share capital	Statutory reserves	Capital reserve	Foreign exchange translation reserves	Retained earnings	Total
Group (RMB'000)						
Balance at 1 April 2016	116,849	44,117	44,000	755	162,333	368,054
Total comprehensive income for the period	-	-	-	153	9,392	9,545
Balance at 30 September 2016	116,849	44,117	44,000	908	171,725	377,599
Appropriation for the period	-	-	-	-	-	-
Total comprehensive loss for the period	-	-	-	(10)	(12,560)	(12,570)
Balance at 31 December 2016	116,849	44,117	44,000	898	159,165	365,029
Balance at 1 April 2015	116,849	42,224	44,000	(84)	201,233	404,222
Appropriation for the period	-	1,897	-	-	(1,897)	-
Dividend paid	-	-	-	-	(3,184)	(3,184)
Total comprehensive income for the period	-	-	-	165	8,955	9,120
Balance at 30 September 2015	116,849	44,121	44,000	81	205,107	410,158
Appropriation for the period	-	(4)	-	-	4	-
Total comprehensive income/(loss) for the period	-	-	-	324	(16,767)	(16,443)
Balance at 31 December 2015	116,849	44,117	44,000	405	188,344	393,715

	Share capital	Foreign exchange translation reserve	Retained earnings/(Accumulated losses)	Total
Company (RMB'000)				
Balance at 1 April 2016	116,849	(4,556)	2,671	114,964
Total comprehensive income/(loss) for the period	-	2,517	(5,884)	(3,367)
Balance at 30 September 2016	116,849	(2,039)	(3,213)	111,597
Total comprehensive loss for the period	-	(2,007)	(2,448)	(4,455)
Balance at 31 December 2016	116,849	(4,046)	(5,661)	107,142
Balance at 1 April 2015	116,849	(12,815)	16,204	120,238
Dividend paid	-	-	(3,184)	(3,184)
Total comprehensive income/(loss) for the period	-	107	(5,604)	(5,497)
Balance at 30 September 2015	116,849	(12,708)	7,416	111,557
Total comprehensive income/(loss) for the period	-	3,404	(2,392)	1,012
Balance at 31 December 2015	116,849	(9,304)	5,024	112,569

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

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

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

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

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

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

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

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

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

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

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

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

	Group		Group	
	3 months ended 31 Dec 2016	3 months ended 31 Dec 2015	9 months ended 31 Dec 2016	9 months ended 31 Dec 2015
	RMB cents	RMB cents	RMB cents	RMB cents
(Loss)/Earnings per ordinary share for the year based on net profit attributable to shareholders :				
Based on weighted average number of ordinary shares in issue	(26.84)	(35.83)	(6.77)	(16.69)
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	
	31 Dec 2016	31 March 2016	31 Dec 2016	31 March 2016
	RMB cents	RMB cents	RMB cents	RMB cents
Net asset value per ordinary share based on the issued capital at the end of the financial year	779.98	786.44	228.94	245.65
Number of shares used in calculating net asset value	46,800,000	46,800,000	46,800,000	46,800,000

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

Revenue

Revenue for the 3-month period ended 31 December 2016 ("3Q2017") increased by approximately RMB 912,000 or 2.4%, from RMB 37.4 million for the 3-month period ended 31 December 2015 ("3Q2016") to RMB 38.4 million in 3Q2017. The increase in revenue during 3Q2017 was mainly attributed to the increased sales of industrial fuse and initiating explosive devices and industrial detonators, which was partially offset by the lower sales of explosives devices.

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 piston non-electric detonators; and (d) ammonium nitrate.

The breakdown and comparison of our revenue by the above product types and geographical segments between 3Q2017 and 3Q2016 and between 9-month period ended 31 December 2016 ("9M2017") and the 9-month period ended 31 December 2015 ("9M2016") are as follows:

	3Q2017		3Q2016		% change
	RMB'000	%	RMB'000	%	
Explosives devices	8,670	22.6	18,833	50.3	(54.0)
Industrial fuse and initiating explosive devices	15,157	39.5	9,204	24.6	64.7
Industrial detonators	14,299	37.3	8,787	23.5	62.7
Ammonium Nitrate	-	-	510	1.3	N.M.
Others ⁽¹⁾	234	0.6	114	0.3	105.3
	38,360	100.0	37,448	100.0	2.4
Within PRC	29,782	77.6	22,366	59.7	33.2
<u>Outside PRC</u>					
Sales through export distributors ⁽²⁾	978	2.6	-	-	N.M.
Australia	7,600	19.8	14,937	39.9	(49.1)
Others	-	-	145	0.4	N.M.
	8,578	22.4	15,082	40.3	(43.1)
	38,360	100.0	37,448	100.0	2.4
	9M2017		9M2016		% change
	RMB'000	%	RMB'000	%	
Explosives devices	16,928	15.9	87,844	48.1	(80.7)
Industrial fuse and initiating explosive devices	49,807	46.6	51,585	28.2	(3.4)
Industrial detonators	39,393	36.9	41,189	22.5	(4.4)
Ammonium Nitrate	121	0.1	1,792	1.0	(93.2)
Others ⁽¹⁾	523	0.5	426	0.2	22.8
	106,772	100.0	182,836	100.0	(41.6)
Within PRC	91,749	85.9	108,901	59.6	(15.8)
<u>Outside PRC</u>					
Sales through export distributors ⁽²⁾	1,085	1.0	-	-	N.M.
Australia	13,187	12.4	69,312	37.9	(81.0)
Others	751	0.7	4,623	2.5	(83.8)
	15,023	14.1	73,935	40.4	(79.7)
	106,772	100.0	182,836	100.0	(41.6)

Note :

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

(2) These were sales to export distributors in the PRC in which they export the products to their customers overseas.

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

Revenue (cont'd)

a) **Sales within PRC**

During 3Q2017, sales within PRC increased by approximately RMB 7.4 million or 33.2% from RMB 22.4 million in 3Q2016 to RMB 29.8 million in 3Q2017. For 9M2017, sales within PRC decreased by approximately RMB 17.2 million or 15.8% from RMB 108.9 million in 9M2016 to RMB 91.7 million in 9M2017.

The increase in sales within PRC during 3Q2017 was mainly attributed to our industrial fuse and initiating explosive devices and industrial detonators segments, which increased by approximately RMB 6.0 million or 64.7% and RMB 4.5 million or 51.6 %, respectively.

Our boosters product segment accounted for majority of the Group's sales and although the temporary production stoppage directive has been lifted due to an explosion at an unrelated boosters production plant in Shandong Province during the last corresponding period, the Group's sales in this product segment was impacted in 3Q2017 due to lower production capacity as the Group embarks on our earlier announced boosters automation upgrading program. As such, sales of boosters within PRC deteriorated by RMB 2.7 million or 71.5% and RMB 11.0 million or 79.3% during 3Q2017 and 9M2017, respectively.

There were no sales of ammonium nitrate during 3Q2017 due to the disposal of Hebei Yinguang Chemical Co., Ltd ("Hebei Yinguang") during 2Q2017.

b) **Sales through export distributors**

Sales through export distributors was approximately RMB 978,000 and RMB 1.1 million for 3Q2017 and 9M2017, respectively. There were no such sales in the last corresponding periods.

c) **Sales to Australia**

During 3Q2017 and 9M2017, sales to Australia decreased by approximately RMB 7.3 million or 49.1% and RMB 56.1 million or 81.0%, respectively. The lower sales was mainly due to the reduction in our boosters' production capacity due to the earlier announced boosters automation upgrading program.

d) **Sales to other countries**

There were no sales to other countries during 3Q2017. During 9M2017, sales to other countries decreased by approximately RMB 3.9 million or 83.8%. Our boosters product segment accounted for majority of the Group's sales to other countries, hence our revenue in this market segment was significantly affected due to the earlier announced boosters automation upgrading program.

The decline was attributed to the same reason that affected the Group's sales to Australia.

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 3Q2017, the Group's gross profit margin increased to 16.6% from 12.1% mainly due to the disposal of Hebei Yinguang during 2Q2017 which had a significantly lower margin ammonium nitrate product. In addition, the Group was not subjected to the temporary stoppage directive of the production of our Yinguang Technology's products in 3Q2017 as compared to the previous corresponding period.

During 9M2017, the Group's gross profit margin decreased to 13.3% from 29.4%. The drop in gross profit margin during 9M2017 was mainly due to the temporary stoppage of boosters production during the first 2 months of 9M2017 and the impact of lower sales from our boosters product segment due to lower production capacity as the Group embarks on our earlier announced boosters automation upgrading program.

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)**

Interest income / (Finance costs)

For 3Q2017 and 9M2017, interest income decreased by approximately RMB 156,000 and RMB 292,000, respectively, mainly due to lower average bank deposits during the current period under review.

For 3Q2017 and 9M2017, finance costs decreased by approximately RMB 803,000 and RMB 1.6 million, respectively, mainly due to lower bank lending interest rate and lower bank loans for the Group after the disposal of Hebei Yinguang.

Other gains / (Other losses)

For 3Q2017, other gains relate to reversal of allowance for impairment on trade receivables of RMB 63,000, gain on disposal of RMB 240,000 and government grants of RMB 128,000. For 3Q2016, other gains relate to reversal of allowance for impairment on trade receivables of RMB 127,000 and government grants of RMB 137,000.

For 9M2017, other gains relate to reversal of allowance for impairment on trade receivables of RMB 452,000, net gain on disposal of subsidiary of approximately RMB 30.1 million and government grants of RMB 647,000. For 9M2016, other gains relate to reversal of allowance for impairment on trade receivables of RMB 153,000, foreign exchange adjustment gain of RMB 366,000 and government grants of RMB 654,000.

For 3Q2017, other losses relate to foreign exchange adjustment loss of RMB 286,000. For 9M2017, other losses relate to foreign exchange adjustment loss of RMB 486,000 and loss on disposal of property, plant and equipment of RMB 876,000.

For 3Q2016, other losses relate to allowance for impairment on trade receivables of RMB 7.0 million, foreign exchange adjustment loss of RMB 165,000 and loss on disposal of property, plant and equipment of approximately RMB 9,000. For 9M2016, other losses relate to allowance for impairment on trade receivables of RMB 7.0 million and loss on disposal of property, plant and equipment of approximately RMB 28,000.

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

For 9M2017, the net gain on disposal of subsidiary of RMB 30.1 million, after the waiver of amount due to Yinguang Technology, relates to the disposal of Hebei Yinguang that was approved by shareholders during the Extraordinary General Meeting held on 31 August 2016. For more information on the disposal of Hebei Yinguang, please refer to the Company's Circular dated 16 August 2016.

Allowance for impairment on trade receivables was based on the management's assessment on the Group's individual trade receivable as at the end of the period under review, in accordance to Singapore Financial Reporting Standards. The impairment was made on those individual long outstanding and slow-moving trade receivables during the assessment and was mainly attributed to the slowdown in China's economic growth and directly impacting the coal and iron-ore mining industries.

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

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)**

Operating expenses

Distribution costs for 3Q2017 increased by approximately RMB 1.3 million or 29.8% mainly due to increase in revenue and in particular increase in sales of initiating fuse and initiating devices which have a higher related distribution costs. Distribution costs for 9M2017 decrease by 21.9% which is in line with the decrease in revenue.

Administrative expenses for 3Q2017 and 9M2017 declined by approximately RMB 1.1 million or 10.8% and RMB 2.6 million or 8.7% mainly due the lack of fixed administrative expenses subsequent to the disposal of Hebei Yinguang during 2Q2017.

During 3Q2017, amortisation expenses decreased by approximately RMB 228,000 or 25.6% mainly due to the lack of amortisation expenses of Hebei Yinguang subsequent to the disposal of Hebei Yinguang during 2Q2017 and an adjustment of amortisation expenses during 3Q2016, partially offset by the increase in amortisation expenses due to increase in land use rights.

During 3Q2017 and 9M2017, depreciation expenses decreased by RMB 0.9 million or 16.9% and RMB 1.2 million or 8.4% mainly to the lack of depreciation expenses of Hebei Yinguang subsequent to the disposal of Hebei Yinguang during 2Q2017.

Income tax income / (expenses)

The income tax expenses for 3Q2017 and 9M2017 were mainly related to the adjustment of deferred tax assets and the provision of withholding tax for undistributed profits of the subsidiary to the Group.

Statement of Financial Position

Property, plant and equipment decreased by approximately RMB 12.0 million, mainly due to the depreciation charged for the current period under review of approximately RMB 13.5 million, the disposal of certain property, plant and equipment of approximately RMB 7.2 million and the disposal of Hebei Yinguang during the current financial period reported on. The decrease was partially offset by the acquisition of property, plant and equipment of approximately RMB 9.6 million.

Other assets, non-current relate to the Group's land use rights, which decreased by approximately RMB 12.9 million mainly due to the disposal of Hebei Yinguang and the amortisation charges of approximately RMB 2.1 million recognized during the current period under review.

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

Inventories, trade and other receivables, other assets and cash and cash equivalents, represented approximately 20.0%, 21.8%, 11.7% and 46.5% respectively of our total current assets as at 31 December 2016.

Inventories decreased by approximately RMB 1.5 million or 3.5% to RMB 40.4 million as at 31 December 2016, as compared to RMB 41.8 million as at 31 March 2016.

During the current period under review, trade and other receivables decreased by approximately RMB 16.4 million or 27.1% to RMB 44.0 million as at 31 December 2016, mainly due to the disposal of Hebei Yinguang and an allowance for impairment on trade receivables made of approximately RMB 3.6 million during 9M2017.

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)

Other assets, current comprising the Group's prepayments, increased by approximately RMB 1.9 million or 9.0% to RMB 23.6 million as at 31 December 2016, despite the decrease from the disposal of Hebei Yinguang. This was mainly due to the increase in prepayment for raw materials.

As at 31 December 2016, our current liabilities comprised of trade and other payables of approximately RMB 67.4 million, other current financial liabilities of approximately RMB 59.7 million and other liabilities of RMB 2.6 million. Non-current liabilities comprised of deferred tax liabilities of RMB 1.9 million.

Trade and other payables decreased by approximately RMB 34.5 million mainly due to the disposal of Hebei Yinguang.

As at 31 December 2016, other current financial liabilities of RMB 59.7 million relates to secured bank loans of Yinguang Technology. The decrease was mainly due to the disposal of Hebei Yinguang.

Other liabilities of RMB 2.6 million relate to the Group's provision for safety expenses, advances from customers and a deferred government grant. The decrease was mainly due to the disposal of Hebei Yinguang.

Deferred tax liabilities of RMB 1.9 million relates to the deferred tax liabilities for the withholding tax on dividend payable by our subsidiary in China. The decrease was due to the disposal of Hebei Yinguang.

Cash flow

For 3Q2017, the Group has net cash used in operating activities of approximately RMB 11.3 million, net cash from investing activities of approximately RMB 517,000 and net cash from financing activities of approximately RMB 20.7 million.

For 9M2017, the Group has net cash used in operating activities of approximately RMB 34.1 million, net cash from investing activities of RMB 26.6 million and net cash from financing activities of approximately RMB 10.3 million.

The net cash from operating activities for 3Q2017 and 9M2017 was mainly due to payment of trade and other payables, in particular the RMB 30.0 million bills payable paid in 1Q2017.

The net cash from investing activities of approximately RMB 26.6 million during 9M2017 was mainly due decrease in cash restricted in use of RMB 30.0 million and the disposal of property, plant and equipment of approximately RMB 6.3 million, partially offset by the acquisition of property, plant and equipment of approximately RMB 9.6 million.

The net cash from financing activities during 3Q2017 and 9M2017 was mainly due to the net proceeds from borrowings, partially offset by the payment of interest.

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

The current third quarter results for the 3-months period ended 31 December 2016 are in line with the Company's commentary as disclosed under paragraph 10 of the second quarter results announcement for the financial period ended 30 September 2016.

10. A commentary at the date of the announcement of the significant trends and competitive conditions of the industry in which the group operates and any known factors or events that may affect the group in the next reporting period and the next 12 months.

China market updates

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

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

Update on our boosters production facilities

Announcements issued by the Company on 30 October 2015 and 3 December 2015 highlighted an unrelated explosion incident at a booster production plant in Shandong Province, Linyi City, Pingyi County. As a precautionary measure, the authorities required all commercial explosives manufacturers in Shandong Province to temporarily cease all production of commercial explosive products for safety inspections and clearance by the relevant authorities. Subsequently, on 30 November 2015, the Group received a notification from the relevant authorities to resume production of our commercial explosives products, except for boosters production as this product category will require additional safety inspection and clearance by the relevant authorities before the resumption of production.

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

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

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

11. Dividend

(a) *Current Financial Period Reported On*
Any dividend declared for the current financial period reported on?

None.

(b) *Corresponding Period of the Immediately Preceding Financial Year*
Any dividend declared for the corresponding period of the immediately preceding financial year?

None.

(c) *Date payable*

Not applicable.

(d) *Books closure date*

Not applicable.

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

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

13. Interested Person Transaction

		Aggregate value of all interested person transactions during the financial period under review (excluding transactions less than \$100,000 and transactions conducted under shareholders' mandate pursuant to Rule 920)		Aggregate value of all interested person transactions conducted under shareholders' mandate pursuant to Rule 920 (excluding transactions less than \$100,000)	
		3Q2017	3Q2016	3Q2017	3Q2016
Name of interested person	Nature	RMB'000	RMB'000	RMB'000	RMB'000
Wulian Hanyue Blasting Services Co., Ltd	Sales of commercial explosives	1,914	-	-	-
Dyno Nobel ⁽¹⁾	Sales of commercial explosives	-	-	2,037	7,915
		9M2017	9M2016	9M2017	9M2016
Shandong Yinguang Security Services Co., Ltd	Provision of security services	6,500	7,200	-	-
Wulian Hanyue Blasting Services Co., Ltd	Sales of commercial explosives	4,376	-	-	-
Dyno Nobel ⁽¹⁾	Sales of commercial explosives	-	-	2,706	21,118

Footnote:

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

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

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

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

On behalf of the Board of Directors of the Company, we, the undersigned, hereby confirm to the best of our knowledge that nothing has come to the attention of the Board of Directors of the Company which may render the unaudited 3rd 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 FEBRUARY 2017**