



## Fabchem China Limited

Company registration number: 200413128G

Financial Statements for the Second Quarter ended 30 September 2013 (“2Q2014”)

### 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 2013 to 30 Sept 2013 RMB'000	3 months from 1 Jul 2012 to 30 Sept 2012 RMB'000	Increase/(Decrease) %	6 months from 1 Apr 2013 to 30 Sept 2013 RMB'000	6 months from 1 Apr 2012 to 30 Sept 2012 RMB'000	Increase/(Decrease) %
<b>Revenue</b>	113,792	148,551	(23.4)	220,570	292,733	(24.7)
Cost of sales	(84,941)	(104,476)	(18.7)	(168,715)	(205,513)	(17.9)
<b>Gross profit</b>	28,851	44,075	(34.5)	51,855	87,220	(40.5)
<b><u>Other Items of Income</u></b>						
Interest income	255	189	34.9	379	379	-
Other credits – Note (i)	604	5	11980.0	821	1,365	(39.9)
<b><u>Other Items of Expense</u></b>						
Distribution costs	(7,745)	(8,000)	(3.2)	(15,433)	(17,004)	(9.2)
Administrative expenses	(10,152)	(11,464)	(11.4)	(20,746)	(23,057)	(10.0)
Financial costs	(1,736)	(702)	147.3	(3,394)	(1,512)	124.5
Other charges– Note (ii)	(538)	(1,143)	(52.9)	(5)	(701)	(99.3)
<b>Profit before income tax</b>	9,539	22,960	(58.5)	13,477	46,690	(71.1)
Income tax expense	(3,841)	(11,571)	(66.8)	(6,100)	(18,486)	(67.0)
<b>Profit attributable to shareholders</b>	5,698	11,389	(50.0)	7,377	28,204	(73.8)
<b>Note (i) – Other Credits</b>						
Foreign exchange adjustment gain	-	-	-	212	-	N.M.
Gain on disposal of property, plant and equipments	74	-	N.M.	74	-	N.M.
Government Grant	530	-	N.M.	530	1,360	(61.0)
Allowance for impairment on trade receivables - reversal	-	5	N.M.	5	5	-
	604	5	11980.0	821	1,365	(39.9)
<b>Note (ii) – Other Charges</b>						
Bad debts written-off	-	-	-	(5)	-	N.M.
Loss on sale of property, plant and equipments	-	(22)	N.M.	-	(12)	N.M.
Foreign exchange adjustment loss	(538)	(1,121)	(52.0)	-	(689)	N.M.
	(538)	(1,143)	(52.9)	(5)	(701)	(99.3)
Profit before income tax was stated after crediting / (charging) :-						
Amortisation expenses	(899)	(1,230)	(26.9)	(1,794)	(1,803)	(0.5)
Depreciation expenses	(5,089)	(4,831)	5.3	(10,063)	(10,208)	(1.4)
Foreign exchange adjustment (loss) / gain	(538)	(1,121)	(52.0)	212	(689)	(130.8)
Gain / (Loss) on sale of property, plant and equipments	74	(22)	(436.4)	74	(12)	(716.7)
Interest expense	(1,736)	(702)	147.3	(3,394)	(1,512)	124.5
Interest income from bank deposits	255	189	34.9	379	379	-
Write back of allowance for impairment on trade receivables	-	5	N.M.	-	5	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 2013 to 30 Sept 2013 RMB'000	3 months from 1 Jul 2012 to 30 Sept 2012 RMB'000	Increase/(Decrease) %	6 months from 1 Apr 2013 to 30 Sept 2013 RMB'000	6 months from 1 Apr 2012 to 30 Sept 2012 RMB'000	Increase/(Decrease) %
<b>Profit attributable to shareholders</b>	5,698	11,389	(50.0)	7,377	28,204	(73.8)
Foreign currency translation difference	(13)	985	(101.3)	(1,162)	593	(296.0)
<b>Total comprehensive income for the period</b>	<u>5,685</u>	<u>12,374</u>	(54.1)	<u>6,215</u>	<u>28,797</u>	(78.4)

1(b)(i) A statement of financial position (for the issuer and group), together with a comparative statement as at the end of the immediately preceding financial year.

	Group		Company	
	30 September 2013 RMB'000	31 March 2013 RMB'000	30 September 2013 RMB'000	31 March 2013 RMB'000
<b>ASSETS</b>				
<b>Non-current assets :</b>				
Property, plant and equipment	299,365	284,615	290	191
Intangible assets	4,385	4,815	-	-
Other assets, non-current	91,271	92,635	-	-
Deferred tax assets	4,214	4,428	-	-
Investment in subsidiary	-	-	110,228	114,022
<b>Total non-current assets</b>	<b>399,235</b>	<b>386,493</b>	<b>110,518</b>	<b>114,213</b>
<b>Current assets :</b>				
Inventories	42,369	63,080	-	-
Trade and other receivables (Note 1)	100,204	116,243	20,627	36,428
Other assets , current	16,333	15,080	193	66
Cash and cash equivalents	131,789	120,011	1,212	487
<b>Total current assets</b>	<b>290,695</b>	<b>314,414</b>	<b>22,032</b>	<b>36,981</b>
<b>Total assets</b>	<b>689,930</b>	<b>700,907</b>	<b>132,550</b>	<b>151,194</b>
<b>EQUITY AND LIABILITIES</b>				
<b>Capital and reserves :</b>				
Share capital	116,849	116,849	116,849	116,849
Retained earnings	260,923	263,139	15,336	27,299
Other reserves	80,913	80,401	(2,685)	2,271
<b>Total equity</b>	<b>458,685</b>	<b>460,389</b>	<b>129,500</b>	<b>146,419</b>
<b>Non-Current liabilities :</b>				
Deferred tax liabilities	5,375	5,144	-	-
Other financial liabilities	-	-	-	-
<b>Total non-current liabilities</b>	<b>5,375</b>	<b>5,144</b>	<b>-</b>	<b>-</b>
<b>Current liabilities :</b>				
Income tax payable	3,040	3,316	-	-
Trade and other payables (Note 2)	108,605	133,821	3,050	4,768
Other financial liabilities, current	112,208	96,288	-	7
Other liabilities	2,017	1,949	-	-
<b>Total current liabilities</b>	<b>225,870</b>	<b>235,374</b>	<b>3,050</b>	<b>4,775</b>
<b>Total liabilities</b>	<b>231,245</b>	<b>240,518</b>	<b>3,050</b>	<b>4,775</b>
<b>Total liabilities and equity</b>	<b>689,930</b>	<b>700,907</b>	<b>132,550</b>	<b>151,194</b>
<b>Note 1</b>				
Trade receivables	93,934	107,242	-	-
Amount receivable from subsidiary	-	-	20,627	36,428
Tax recoverable	4,757	4,757	-	-
Other receivables	1,513	4,244	-	-
Trade and other receivables	100,204	116,243	20,627	36,428
<b>Note 2</b>				
Trade payables and accruals	81,502	106,316	2,400	4,596
Other payables	27,103	27,505	650	172
Trade and other payables	108,605	133,821	3,050	4,768

**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 2013</b>		<b>31 March 2013</b>	
<b>Secured</b>	<b>Unsecured</b>	<b>Secured</b>	<b>Unsecured</b>
84,000	28,208	68,007	28,281

**Amount repayable after one year**

**(RMB'000)**

<b>30 September 2013</b>		<b>31 March 2013</b>	
<b>Secured</b>	<b>Unsecured</b>	<b>Secured</b>	<b>Unsecured</b>
-	-	7	-

**Details of any collateral**

As at 30 September 2013, the Group has secured borrowings comprising secured short-term loans from financial institutions of RMB 84.0 million while unsecured borrowings comprises of a loan from a third party of RMB 8.2 million and a short-term loan from a financial institution of RMB 20.0 million.

Secured short-term bank loans of RMB 70.0 million are secured using Shandong Yinguang Technology Co., Ltd's ("Yinguang Technology") land and buildings with a net book value of approximately RMB 93.8 million. The secured short-term bank loans' interest rates ranged from 5.88% to 6.9% per annum. The remaining secured short-term bank loans of RMB 14.0 million are secured using Hebei Yinguang Chemical Co., Ltd's ("Hebei Yinguang") land and buildings with net book value of approximately RMB 15.9 million and guaranteed by a corporate guarantee from Shandong Yinguang Chemical Group Co., Ltd ("Yinguang Chemical Group"), the former holding company of Hebei Yinguang. The secured short-term bank loan's interest rate is 8.4% per annum.

Unsecured borrowing of RMB 8.2 million relates to a loan from Linxi County Nitrogenous Fertilizer Co., Ltd while the unsecured short-term bank loan of RMB 20.0 million is guaranteed by a corporate guarantee from Yinguang Chemical Group, and bears an interest rate of 7.2% 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 2013 to 30 Sept 2013 RMB'000	3 months from 1 Jul 2012 to 30 Sept 2012 RMB'000	6 months from 1 Apr 2013 to 30 Sept 2013 RMB'000	6 months from 1 Apr 2012 to 30 Sept 2012 RMB'000
<b>Cash flows from operating activities</b>				
Profit before income tax	9,539	22,960	13,477	46,690
Adjustments for :				
Amortisation expenses	899	1,230	1,794	1,803
Allowance for impairment on trade receivables - reversal	-	(5)	(5)	(5)
Bad debts written off	-	-	5	-
Depreciation expense	5,089	4,831	10,063	10,208
(Gain) / Loss on sale of property, plant and equipments	(74)	22	(74)	12
Provision for safety expenses	1,483	1,431	2,873	3,378
Interest income	(255)	(189)	(379)	(379)
Interest expenses	1,736	702	3,394	1,512
Net effect of exchange rate changes in translation of financial statements of Parent	(6)	976	(1,157)	587
Operating profit before working capital changes	18,411	31,958	29,991	63,806
Inventories	8,724	1,502	20,711	1,928
Trade and other receivables	16,005	(7,012)	13,054	(30,665)
Other assets	(1,761)	1,434	(1,253)	(2,601)
Trade and other payables	3,229	(3,780)	(26,089)	16,004
Other liabilities	(118)	(13)	68	(284)
Cash generated from operations	44,490	24,089	36,482	48,188
Income tax paid	(2,265)	(10,278)	(5,931)	(14,885)
<b>Net cash from operating activities</b>	<b>42,225</b>	<b>13,811</b>	<b>30,551</b>	<b>33,303</b>
<b>Cash flows from investing activities</b>				
Proceeds from sale of property, plant and equipments	92	11	92	28
Proceeds from sale of land use rights	-	-	2,985	-
Purchase of property, plant and equipments	(17,224)	(30,892)	(26,836)	(34,530)
Purchase of land use rights	-	-	-	(390)
Interest received	255	189	379	379
<b>Net cash used in investing activities</b>	<b>(16,877)</b>	<b>(30,692)</b>	<b>(23,380)</b>	<b>(34,513)</b>
<b>Cash flows from financing activities</b>				
Payment of dividends	(7,919)	(11,831)	(7,919)	(11,831)
Repayment of finance lease obligation	-	(19)	(7)	(41)
Proceeds from / (Repayment of) short-term bank loans	12,000	(4,000)	16,000	(4,000)
Repayment of third party loan	(26)	-	(73)	(1,228)
Interest paid	(1,736)	(702)	(3,394)	(1,512)
<b>Net cash from/(used in) financing activities</b>	<b>2,319</b>	<b>(16,552)</b>	<b>4,607</b>	<b>(18,612)</b>
Net increase/(decrease) in cash	27,667	(33,433)	11,778	(19,822)
Cash at beginning of the period	104,122	116,754	120,011	103,143
<b>Cash at end of the period</b>	<b>131,789</b>	<b>83,321</b>	<b>131,789</b>	<b>83,321</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 2013	116,849	35,009	44,000	1,392	263,139	460,389
Appropriation for the period	-	629	-	-	(629)	-
Total comprehensive (loss)/ income for the period	-	-	-	(1,149)	1,679	530
Balance at 30 June 2013	116,849	35,638	44,000	243	264,189	460,919
Appropriation for the period	-	1,045	-	-	(1,045)	-
Dividend paid	-	-	-	-	(7,919)	(7,919)
Total comprehensive (loss)/ income for the period	-	-	-	(13)	5,698	5,685
Balance at 30 September 2013	116,849	36,683	44,000	230	260,923	458,685
Balance at 1 April 2012	116,849	42,546	-	1,086	279,925	440,406
Appropriation for the period	-	1,798	-	-	(1,798)	-
Total comprehensive (loss)/ income for the period	-	-	-	(392)	16,815	16,423
Balance at 30 June 2012	116,849	44,344	-	694	294,942	456,829
Appropriation for the period	-	1,967	-	-	(1,967)	-
Dividend paid	-	-	-	-	(11,831)	(11,831)
Total comprehensive income for the period	-	-	-	985	11,389	12,374
Balance at 30 September 2012	116,849	46,311	-	1,679	292,533	457,372

	Share capital	Foreign exchange translation reserve	Retained earnings	Total
<b>Company (RMB'000)</b>				
Balance at 1 April 2013	116,849	2,271	27,299	146,419
Total comprehensive loss for the period	-	(5,279)	(1,185)	(6,464)
Balance at 30 June 2013	116,849	(3,008)	26,114	139,955
Dividend paid	-	-	(7,919)	(7,919)
Total comprehensive income/(loss) for the period	-	323	(2,859)	(2,536)
Balance at 30 September 2013	116,849	(2,685)	15,336	129,500
Balance at 1 April 2012	116,849	1,241	31,635	149,725
Total comprehensive loss for the period	-	(1,760)	(2,688)	(4,448)
Balance at 30 June 2012	116,849	(519)	28,947	145,277
Dividend paid	-	-	(11,831)	(11,831)
Total comprehensive income/(loss) for the period	-	5,239	(4,570)	669
Balance at 30 September 2012	116,849	4,720	12,546	134,115

**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 2013</b>	<b>31 March 2013</b>
Total number of issued shares	234,000,000	234,000,000

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

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

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

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

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

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

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

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

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

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

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

	Group		Group	
	3 months ended 30 Sept 2013	3 months ended 30 Sept 2012	6 months ended 30 Sept 2013	6 months ended 30 Sept 2012
	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	2.44	4.87	3.15	12.05
Weighted average number of ordinary shares in issue for basic earnings per share	234,000,000	234,000,000	234,000,000	234,000,000

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 2013	31 March 2013	30 Sept 2013	31 March 2013
	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	196.02	196.75	55.34	62.57
Number of shares used in calculating net asset value	234,000,000	234,000,000	234,000,000	234,000,000

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

Subsequent to the unrelated explosion accident in May 2013, all commercial explosives manufacturing plants in PRC are undergoing more stringent safety checks and controls implemented by the relevant authorities, thereby restricting our production capacities and sales volume for our explosives devices, industrial fuse and initiating explosive devices and industrial detonators segments.

As a result, revenue for the 3-month period ended 30 September 2013 ("2Q2014") decreased by approximately RMB 34.8 million or 23.4%, from RMB 148.6 million of the 3-month period ended 30 September 2012 ("2Q2013") to RMB 113.8 million in 2Q2014, as most of our product segments registered lower sales.

Our products can be categorised mainly into (a) explosive devices such as boosters, seismic charges and tube charges; (b) industrial fuse and initiating explosive devices such as detonating cords and non-electric tubes; (c) industrial detonators such as non-electric detonators and piston non-electric detonators; and (d) ammonium nitrate. The breakdown and comparison of our revenue by the above product types and geographical segments between 2Q2014 and 2Q2013 and between 6-month period ended 30 September 2013 ("6M2014") and the 6-month period ended 30 September 2012 ("6M2013") are as follows:

	2Q2014		2Q2013		% change
	RMB'000	%	RMB'000	%	
Explosives devices	34,843	30.6	55,553	37.4	(37.3)
Industrial fuse and initiating explosive devices	25,652	22.6	32,578	21.9	(21.3)
Industrial detonators	24,850	21.8	23,974	16.1	3.7
Ammonium Nitrate	28,447	25.0	36,238	24.4	(21.5)
Others <sup>(1)</sup>	-	-	208	0.2	N.M.
	<b>113,792</b>	<b>100.0</b>	<b>148,551</b>	<b>100.0</b>	<b>(23.4)</b>
Within PRC	81,474	71.6	104,332	70.2	(21.9)
<u>Outside PRC</u>					
Sales through export distributors <sup>(2)</sup>	5,821	5.1	6,407	4.3	(9.1)
Australia	23,878	21.0	32,197	21.7	(25.8)
Others	2,619	2.3	5,615	3.8	(53.4)
	<b>32,318</b>	<b>28.4</b>	<b>44,219</b>	<b>29.8</b>	<b>(26.9)</b>
	<b>113,792</b>	<b>100.0</b>	<b>148,551</b>	<b>100.0</b>	<b>(23.4)</b>
	6M2014		6M2013		% change
	RMB'000	%	RMB'000	%	
Explosives devices	64,903	29.4	93,595	32.0	(30.7)
Industrial fuse and initiating explosive devices	54,438	24.7	65,416	22.3	(16.8)
Industrial detonators	49,083	22.3	50,141	17.1	(2.1)
Ammonium Nitrate	52,145	23.6	82,767	28.3	(37.0)
Others <sup>(1)</sup>	1	-	814	0.3	(99.9)
	<b>220,570</b>	<b>100.0</b>	<b>292,733</b>	<b>100.0</b>	<b>(24.7)</b>
Within PRC	160,190	72.6	218,119	74.5	(26.6)
<u>Outside PRC</u>					
Sales through export distributors <sup>(2)</sup>	9,653	4.4	16,206	5.5	(40.4)
Australia	47,019	21.3	47,083	16.1	(0.1)
Others	3,708	1.7	11,325	3.9	(67.3)
	<b>60,380</b>	<b>27.4</b>	<b>74,614</b>	<b>25.5</b>	<b>(19.1)</b>
	<b>220,570</b>	<b>100.0</b>	<b>292,733</b>	<b>100.0</b>	<b>(24.7)</b>

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 2Q2014, sales within PRC decreased by approximately RMB 22.9 million or 21.9% as compared to 2Q2013. The decrease was mainly due to the lower PRC sales across all our product segments, in particular ammonium nitrate which decreased by approximately RMB 7.8 million or 21.5%. Explosives devices and industrial fuse and initiating explosive devices also decreased by RMB 6.5 million and RMB 7.7 million, respectively.

For 6M2014, sales within PRC decreased by approximately RMB 57.9 million or 26.6% from RMB 218.1 million in 6M2013 to RMB 160.2 million in 6M2014. The decrease in sales within PRC was also attributed to the drop in sales across all our product segments.

The market-driven selling prices of explosive-grade ammonium nitrate continued to experience downward pressure, which significantly impacted our ammonium nitrate selling price and quantity.

While production capacities of explosives devices, industrial fuses and initiating explosive devices and industrial detonators are all affected by the heightened safety checks and controls which affected our production capacities as mentioned under Note 10 of our 1Q2014's results announcement on 13 August 2013. The management will continue to monitor the situation and undertake new measures to mitigate such impact.

b) **Sales through export distributors**

Sales through export distributors decreased marginally by RMB 0.6 million or 9.1% and RMB 6.6 million or 40.4% during 2Q2014 and 6M2014, respectively. The decline is mainly due to the decrease in sales to South Africa through an export distributor.

c) **Sales to Australia**

During 2Q2014, sales to Australia decreased by approximately RMB 8.3 million or 25.8% mainly due to lower sales to Orica Australia and Dyno Nobel Australia. Sales to Orica Australia and Dyno Nobel Australia decreased by approximately RMB 5.6 million and RMB 2.7 million, respectively during 2Q2014.

During 6M2014, sales to Australia remained relatively stable as the decreased in sales to Dyno Nobel Australia of RMB 5.8 million was offset by the increased in sales to Orica Australia and Beston Australia of approximately RMB 5.7 million.

d) **Sales to other countries**

During 2Q2014 and 6M2014, sales to other countries decreased by approximately RMB 3.0 million and RMB 7.6 million respectively. The drop in sales to other countries is mainly due to lower sales to Kyrgyzstan and Dyno Nobel Indonesia during the period under review.

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").

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)**

#### **Gross profit margin**

During 2Q2014, the Group's gross profit margin dipped by approximately 4.3 percentage points, from 29.7% in 2Q2013 to 25.4% in 2Q2014. For 6M2014, the Group's gross profit margin was lowered by approximately 5.3 percentage points from 29.8% in 6M2013 to 23.5% in 6M2014.

The decline in gross profit margin was mainly attributed to lower market-driven selling price of ammonium nitrate during the current period under review. Notably, the market-driven selling prices of ammonium nitrate further deteriorated by approximately 20.9% during 6M2014 as compared to 6M2013. In addition, the temporary cease production directive during May/June 2013 and the increasing raw materials prices (in particular RDX and PETN) of other product segments also affected the Group's overall gross profit margins.

#### **Interest income / (Finance costs)**

For 2Q2014, interest income increased marginally by approximately RMB 66,000. For 6M2014, interest income remained relatively unchanged at RMB 379,000 as compared to 6M2013.

For 2Q2014 and 6M2014, finance costs increased by approximately RMB 1.0 million and RMB 1.9 million, respectively. The increased was due to the higher quantum of bank loans recorded during the current period under review.

#### **Other credits / (Other charges)**

For 2Q2014, other credits related to the gain on disposal of property, plant and equipments of RMB 74,000 and government grant of RMB 530,000. For 2Q2013, other credits related only to a reversal of allowance for impairment on trade receivables of RMB 5,000.

For 6M2014, other credits related to the foreign exchange adjustment gain of RMB 212,000, gain on disposal of property, plant and equipments of RMB 74,000, government grant of RMB 530,000 by Hebei Province, Linxi County's government and a reversal of allowance for impairment on trade receivables. In comparison, for 6M2013, other credits include a government grant of approximately RMB 1.4 million by Hebei Province, Linxi County's government for our subsidiary, Hebei Yinguang and a write-back of allowance for impairment on trade receivables of RMB 5,000.

Other charges for 2Q2014 and 6M2014 related to the foreign exchange adjustment loss of RMB 538,000 and bad debts written-off of RMB 5,000, respectively. Other charges for 2Q2013 and 6M2013 related to the loss on sales of property, plant and equipments and 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**

Distribution costs decreased by 3.2% and 9.2% for 2Q2014 and 6M2014, respectively, which is in line with the decrease in our revenue.

Administrative expenses decreased by 11.4% and 10.0% for 2Q2014 and 6M2014, respectively.

While operating expenses decreased correspondingly to the reduction in revenue, the percentage decrease in operating expenses was still lower than the percentage reduction in revenue as there were fixed costs components as well as salary costs incurred.

#### **Income tax expenses**

The effective tax rate for 2Q2014 and 6M2014 was 40.3% and 45.3%, respectively (2Q2013: 50.4% ; 6M2013: 39.6%). This is higher than the PRC concessionary tax rate of 25.0% mainly due to non-deductible expenses.

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)**

### **Balance sheet**

Property, plant and equipment increased by approximately RMB 14.8 million, mainly due to the acquisition of property, plant and equipment for the boosters upgrading and detonating cords expansion projects, which is partially offset by the depreciation charged for the current period under review.

Intangible assets comprise of the Group's licences and customer relationships which arose during the purchase price allocation ("PPA") exercise for the acquisition of Hebei Yinguang during FY2010, performed in accordance with the Singapore Financial Reporting Standards. Intangible assets decreased by approximately RMB 0.4 million mainly due to the amortisation charges during the current period under review.

Other assets, non-current relate to the Group's land use rights, which decreased by approximately RMB 1.4 million mainly due to 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 and inventories and provision for safety expenses.

Inventories, trade and other receivables, other assets and cash and cash equivalents, represented approximately 14.6%, 34.5%, 5.6% and 45.3% respectively of our total current assets as at 30 September 2013.

Inventories decreased by approximately RMB 20.7 million or 32.8% to RMB 42.4 million as at 30 September 2013, as compared to RMB 63.1 million as at 31 March 2013. The decline was mainly due to the reduction in finished goods and raw materials, which was a result of the temporary cease production directive as highlighted in the previous announcements.

During the current quarter, trade receivables decreased by approximately RMB 13.3 million mainly due to improved trade receivables collection. Other receivables decreased by approximately RMB 2.7 million, mainly due to the sales proceeds of RMB 3.0 million from the sale of land use rights to the Linxi County, Hebei Province.

Other assets, current comprising the Group's prepayments, increased by approximately RMB 1.3 million or 5.6% to RMB 16.3 million as at 30 September 2013. The increase is mainly due to more prepayments for raw materials.

As at 30 September 2013, our current liabilities comprised of income tax payable of RMB 3.0 million, trade and other payables of approximately RMB 108.6 million, other current financial liabilities of approximately RMB 112.2 million and other liabilities of RMB 2.0 million. Non-current liabilities comprised of deferred tax liabilities of RMB 5.4 million.

Trade and other payables decreased by approximately RMB 25.2 million mainly due to the payment to creditors for the purchase of raw materials.

As at 30 September 2013, other current financial liabilities of RMB 112.2 million comprised of bank loans of RMB 104.0 million and third party loan of RMB 8.2 million. The increment of RMB 15.9 million from RMB 96.3 million as at 31 March 2013 was mainly due to the additional bank loans of RMB 16.0 million secured by the Group during the period under review.

Other liabilities of RMB 2.0 million relate to the Group's advances from customers.

Deferred tax liabilities of RMB 5.4 million relate mainly to the deferred tax difference upon the finalisation of the PPA exercise in relation to the acquisition of Hebei Yinguang in 2008 and the deferred tax liabilities for the withholding tax on dividend payable by our China 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)**

#### **Cash flow**

For the 3 months ended 30 September 2013, the Group recorded net cash generated from operating and financing activities of approximately RMB 42.2 million and RMB 2.3 million, respectively and net cash used in investing activities of approximately RMB 16.9 million.

For the current 6 months ended 30 September 2013, the Group recorded net cash generated from operating and financing activities of approximately RMB 30.6 million and RMB 4.6 million, respectively and net cash used in investing activities of approximately RMB 23.4 million.

The lower increment in net cash generated from operating activities during 2Q2014 and 6M2014 as compared to 2Q2013 and 6M2013 was mainly due to the faster payment to creditors. However, debtors recoverability days improved during the current period under review.

The cash outflow in investing activities for 2Q2014 and 6M2014 was mainly due to the acquisition of property, plant and equipment for the upgrading of boosters manufacturing facilities and the construction of additional detonating cords and ammonium nitrate production facilities, partially offset by the proceeds of approximately RMB 3.0 from the sale of land use rights to Linxi County, Hebei Province.

The net cash from financing activities of approximately for 2Q2014 and 6M2014 was mainly due to the increase in bank loans of RMB 12.0 million and RMB 16.0 million, respectively, partially offset by the payment of dividends, interest expenses and third party loan.

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

No forecast or prospect statement has been previously issued.

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 the new ammonium nitrate production facilities**

Following our earlier announcement on the new ammonium nitrate production facilities, the construction of the new facilities has been temporarily halted due to the negative market outlook for the demand of ammonium nitrate.

In light of the current market conditions for ammonium nitrate, this market segment is expected to incur a small operating loss for the current financial year. The management will continue to monitor the situation and update Shareholders of any material impact to the Group accordingly.

#### **Update on acquisition of land and buildings (the "Property")**

During the Extraordinary General Meeting ("EGM") held on 28 July 2011, the Shareholders of the Company approved the acquisition of the Property at Fei County, Linyi City, Shandong Province, PRC where the Group's manufacturing facilities and warehouses (for the production of the Group's initiation systems products) are located.

The management would like to inform our Shareholders that the full bank loans of RMB 70.0 million has been obtained and fully repaid to the Vendors in accordance with the Agreement.

For further information, please refer to our earlier announcements and the Circular to Shareholders dated 12 July 2011.

**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)	
		2Q2014	2Q2013	2Q2014	2Q2013
Name of interested person	Nature	RMB'000	RMB'000	RMB'000	RMB'000
Feixian Yinguang Transport Co., Ltd	Payment of transportation charges	813	1,902	-	-
Shandong Yinguang Commerical Explosives Sales and Services Co., Ltd	Sales of commercial explosives products	1,779	576	-	-
Shandong Yinguang Chemical Group Co., Ltd <sup>(1)</sup>	Sales of ammonium nitrate	9,860	402	-	84
Dyno Nobel Australia <sup>(2)</sup>	Sales of commercial explosives	-	-	6,513	12,410
		<b>6M2014</b>	<b>6M2013</b>	<b>6M2014</b>	<b>6M2013</b>
Name of interested person	Nature	RMB'000	RMB'000	RMB'000	RMB'000
Feixian Yinguang Transport Co., Ltd	Payment of transportation charges	2,889	2,979	-	-
Shandong Yinguang Commerical Explosives Sales and Services Co., Ltd	Sales of commercial explosives products	3,059	1,492	-	-
Shandong Yinguang Chemical Group Co., Ltd <sup>(1)</sup>	Sales of ammonium nitrate	13,217	402	-	1,712
Dyno Nobel Australia <sup>(2)</sup>	Sales of commercial explosives	-	-	10,288	22,033

Footnotes:

<sup>(1)</sup> The relevant general mandate was updated and approved at the Annual General Meeting held on 28 July 2011. However, it was not updated during the Annual General Meeting held on 27 July 2012 after considering the immateriality of the amount transacted. As such, transactions after 27 July 2012 will not be considered as conducted under shareholders mandate pursuant to Rule 920.

<sup>(2)</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 25 July 2013.

**14. 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

Sun Bowen  
Managing Director

Bao Hongwei  
Director

**BY ORDER OF THE BOARD  
SUN BOWEN  
MANAGING DIRECTOR  
8 NOVEMBER 2013**