



## Fabchem China Limited

### FABCHEM REMAINS PROFITABLE IN 6M2014 AMID CHALLENGING OPERATING ENVIRONMENT

- While financial performance in 2Q2014 improved over 1Q2014, the Group's first half financial performance continue to be weighed down by weakening demand for ammonium nitrate and the impact from the heightened production regulations in the Shandong Province
- Demand for initiating system products from Australian customers remain resilient despite the slowdown in Chinese ammonium nitrate demand
- Net cash of RMB 42.2 million (2Q2013: RMB 13.8 million) generated from operating activities in 2Q2014
- Balance sheet remained healthy with cash and cash equivalents of RMB 131.8 million and gearing of 0.16x<sup>(1)</sup>

<i>(RMB' million)</i>	<b>2Q2014</b>	<b>2Q2013</b>	<b>Change (%)</b>	<b>6M2014</b>	<b>6M2013</b>	<b>Change (%)</b>
Revenue	113.79	148.55	(23.4)	220.57	292.73	(24.7)
Gross Profit	28.85	44.08	(34.5)	51.86	87.22	(40.5)
Profit Before Tax	9.54	22.96	(58.5)	13.48	46.69	(71.1)
Net Profit	5.70	11.39	(50.0)	7.38	28.20	(73.8)
EPS <sup>(2)</sup> (RMB Cents)	2.44	4.87	(50.0)	3.15	12.05	(73.8)
EBITDA <sup>(3)</sup>	16.64	29.20	(43.0)	27.70	58.64	(52.7)
<i>(RMB Cents)</i>	<b>As at 30 Sep 13</b>	<b>As at 31 Mar 13</b>	<b>Change (%)</b>			
NAV per share <sup>(2)</sup>	196.02	196.75	(0.37)			

**Singapore, 8 November 2013** – Singapore Exchange Mainboard-listed Fabchem China Limited (“Fabchem”, “中国杰化有限公司” or “the Group”), announced today its financial results for the second quarter (“2Q2014”) and first half (“6M2014”) for the financial year ending 31 March 2014.

Based in China with more than a 30-year safety track record, Fabchem is a leading manufacturer of initiation systems and the largest booster and detonating cord producer in the supply-regulated industry in China, where foreign involvement is restricted. ASX-listed Incitec Pivot Limited, via the world's second largest commercial explosives manufacturer, Dyno Nobel, owns a 29.9% strategic stake in Fabchem.

(1) Gearing – Total Financial Liabilities/ Total Assets

(2) Based on weighted average number of 234 million shares.

(3) EBITDA – Earnings before Interest, Tax, Depreciation and Amortisation



## Financial Performance Review for 6M2014

While there is a marked improvement of our financial performance in 2Q2014 as compared to 1Q2014, the Group continues to operate in a challenging business environment with the slowdown in economic growth, softness in ammonium nitrate demand and pricing and constrained regulatory manufacturing capacity.

Particularly, the weakening market demand for explosive-grade ammonium nitrate further contributed to the decline in the Group's overall revenue. Being a key contributor to the Group's revenue mix, the 37.0% decline in the revenue of ammonium nitrate, in 6M2014, significantly affected the Group's overall revenue. It is projected that the Group's ammonium nitrate business will continue to incur operating losses until market demand improves.

While demand for initiating systems from our overseas markets continues to remain healthy, the Group experienced a dip in overseas sales revenue for 6M2014 due to the constraints in our production capacities as a result of the additional security and safety checks by the authorities after the unrelated producer's May 2013 explosion accident in Shandong province where the initiating system facilities are located.

Faced with lower market-driven selling prices for ammonium nitrate, higher raw material prices (in particular PETN and RDX) and the temporary cease production directive during May/June 2013, overall gross profit margin dipped approximately 5.3 percentage points to 23.5% in 6M2014. As such, the Group registered gross profit of RMB 51.8 million (6M2013: RMB 87.2 million) in 6M2014.

Although the Group's operating expenses decreased in line with the Group's lower revenue recorded in 6M2014, the percentage decrease in operating expenses was still lower than the percentage reduction in revenue as there were fixed costs components as well as higher salary costs incurred.

In summary, the Group's profit attributable to shareholders stood at RMB 5.7 million and RMB 7.4 million in 2Q2014 and 6M2014 respectively. On an EBITDA basis, the Group's EBITDA in 6M2014 dipped 52.7% to RMB 27.7 million from RMB 58.6 million in 6M2013.

**Commenting on the Group's financial performance for 6M2014, Mr Sun Bowen (“孙伯文”), Fabchem's Managing Director, said, “Although faced with challenging market trends and regulatory constraints experienced over the recent quarters, our operating activities in this highly specialised industry continue to generate healthy cash flow.**

*Our near-term imperative is to reduce costs and improve efficiency while maintaining strong performance across all our production initiatives and continuing to improve our safety standards and compliance.*

*We remain confident in the long-term business prospects of this niche industry and we are well positioned in our target markets when ammonium nitrate demand and pricing improves.”*

## Healthy Balance Sheet

Guided by its prudent financial approach and emphasis on a low-risk balance sheet, total assets stood at RMB 689.9 million as at 30 September 2013 with a gearing of 0.16x and a cash and cash equivalent position of RMB 131.8 million.

As at 30 September 2013, shareholders' equity stood at RMB 458.7 million, while net asset value per share stood at RMB 196.02 cents.

At the end of September 2013, the Group's total liabilities reduced by RMB 9.3 million, or 3.9%, to RMB 231.2 million, of which the major portion was attributable to trade and other payables of RMB 108.6 million and other financial liabilities of RMB 112.2 million.

## Corporate Updates in 6M2014

With regards to the Group's 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 related 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.

Separately, the unfortunate accident at an unrelated producer's commercial explosive manufacturing plant in Jinan, Shandong Province on 20 May 2013 has led the Chinese authorities to heighten the production regulations on operating hours and production volume. And as a result, the Group's commercial explosive production capacities have been affected.

Moving ahead, the Group will continue to update shareholders on the progress of its growth plans and macro industry trends.

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This document is to be read in conjunction with Fabchem's exchange filings on 8 November 2013, which can be downloaded via [www.sgx.com](http://www.sgx.com).

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*For any enquires on Fabchem's latest financial results announcement, pls email: [ir@fabchemchina.com](mailto:ir@fabchemchina.com)*

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## **About Fabchem China Limited (Bloomberg Code: FABC:SP / Reuters Code: FBCH.SI)**

Listed on the Singapore Exchange Mainboard, Fabchem is one of the leading manufacturers of initiation systems and the largest boosters and detonating cords producer within a supply-regulated industry in China. Fabchem's products are widely used in the mining, energy exploration, hydroelectric and infrastructure construction sectors. These include explosive devices (boosters and seismic charges), industrial fuse and initiating explosive devices (detonating cords and non-electric tubes), industrial detonators (piston non-electric detonators), as well as explosive-grade ammonium nitrate.

With its products sold to more than 150 customers in the mining, energy exploration, hydroelectric and infrastructure construction industries across more than 10 countries, the Group has established "Yinguang" as a brand name synonymous with safety, reliability and high quality. Fabchem's reputation as an established initiation systems producer of international-standard quality has strengthened its competitive positioning within commodities-driven economies.

### **English-Chinese Glossary**

#### *Explosive Devices*

Booster	起爆具
Seismic Charge	震源药柱

#### *Industrial Fuses and Initiating Explosive Devices*

Detonating Cord	导爆索
Non-Electric Tube	导爆管

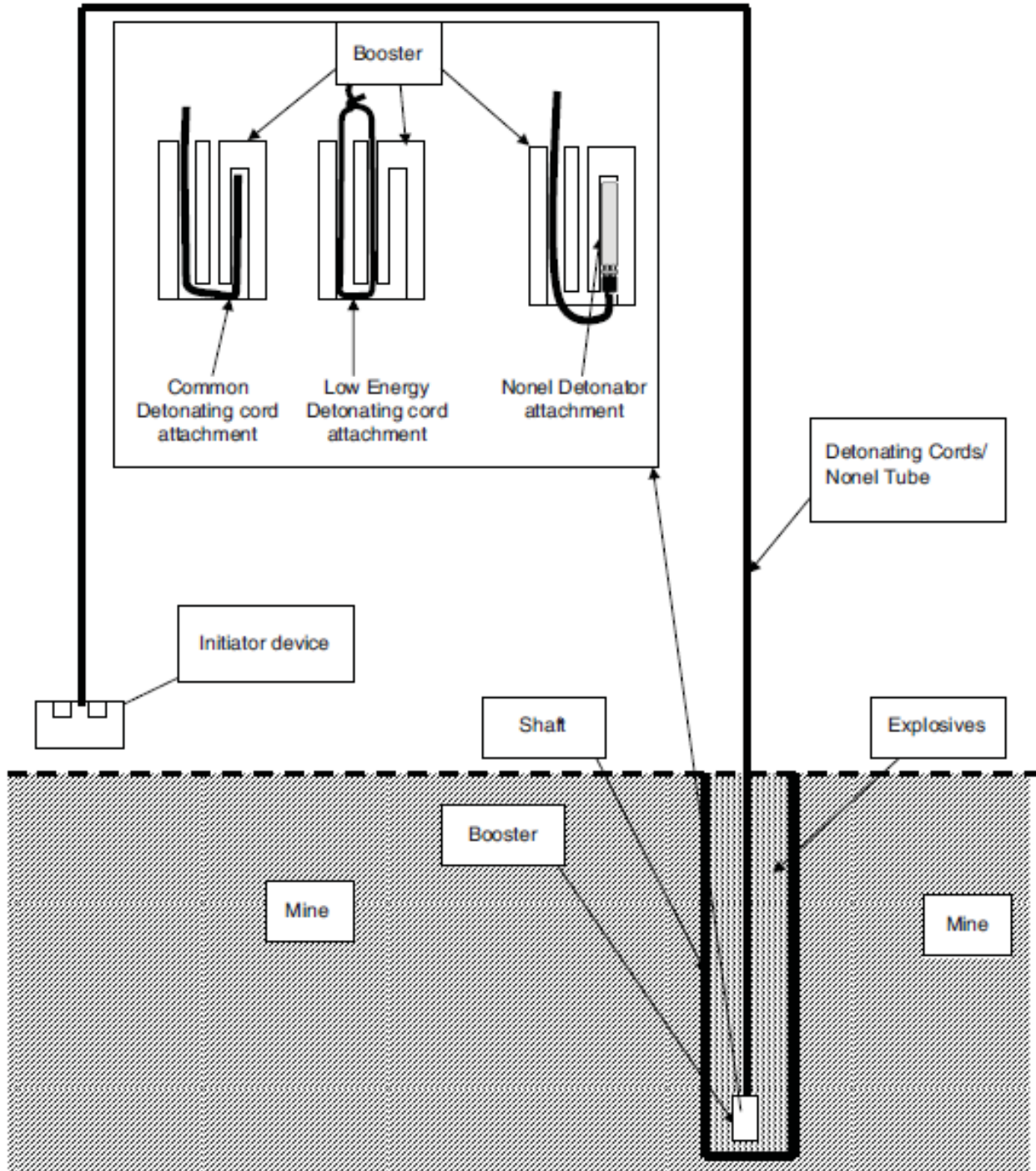
#### *Industrial Detonators*

Piston Non-Electric Detonator	活塞式导爆管雷管
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Ammonium Nitrate	硝酸铵
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## Usage Diagram

The following diagram illustrates the usage of our products in a simplified explosive set-up:-



Note: The diagram and the products shown above are not drawn to scale.

Source: Fabchem China Limited