



## Fabchem China Limited

Company registration number: 200413128G

Financial Statements for the Third Quarter ended 31 December 2013 (“3Q2014”)

### 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 2013 to 31 Dec 2013 RMB'000	3 months from 1 Oct 2012 to 31 Dec 2012 RMB'000	Increase/(Decrease) %	9 months from 1 Apr 2013 to 31 Dec 2013 RMB'000	9 months from 1 Apr 2012 to 31 Dec 2012 RMB'000	Increase/(Decrease) %
<b>Revenue</b>	94,155	97,269	(3.2)	314,725	390,002	(19.3)
Cost of sales	(68,987)	(72,754)	(5.2)	(237,702)	(278,267)	(14.6)
<b>Gross profit</b>	<u>25,168</u>	<u>24,515</u>	2.7	<u>77,023</u>	<u>111,735</u>	(31.1)
<b><u>Other Items of Income</u></b>						
Interest income	150	150	-	529	529	-
Other credits – Note (i)	257	256	0.4	1,004	1,609	(37.6)
<b><u>Other Items of Expense</u></b>						
Distribution costs	(7,182)	(6,071)	18.3	(22,615)	(23,075)	(2.0)
Administrative expenses	(11,009)	(10,696)	2.9	(31,755)	(33,753)	(5.9)
Financial costs	(1,700)	(147)	1056.5	(5,094)	(1,659)	207.1
Other charges– Note (ii)	(1,355)	(787)	72.2	(1,286)	(1,476)	(12.9)
<b>Profit before income tax</b>	<u>4,329</u>	<u>7,220</u>	(40.0)	<u>17,806</u>	<u>53,910</u>	(67.0)
Income tax expense	(3,630)	(2,996)	21.2	(9,730)	(21,482)	(54.7)
<b>Profit attributable to shareholders</b>	<u><u>699</u></u>	<u><u>4,224</u></u>	(83.5)	<u><u>8,076</u></u>	<u><u>32,428</u></u>	(75.1)
<b>Note (i) – Other Credits</b>						
Foreign exchange adjustment gain	201	-	N.M.	413	-	N.M.
Gain on disposal of property, plant and equipment	-	83	N.M.	-	71	N.M.
Gain on disposal of land use rights	-	128	N.M.	-	128	N.M.
Government Grant	45	26	73.1	575	1,386	(58.5)
Write back of allowance for impairment on trade receivables	11	19	(42.1)	16	24	(33.3)
	<u>257</u>	<u>256</u>	0.4	<u>1,004</u>	<u>1,609</u>	(37.6)
<b>Note (ii) – Other Charges</b>						
Bad debts written-off	-	-	N.M.	(5)	-	N.M.
Foreign exchange adjustment loss	-	(203)	N.M.	-	(892)	N.M.
Loss on disposal of property, plant and equipment	(1,355)	-	N.M.	(1,281)	-	N.M.
Property, plant and equipment written off	-	(584)	N.M.	-	(584)	N.M.
	<u>(1,355)</u>	<u>(787)</u>	72.2	<u>(1,286)</u>	<u>(1,476)</u>	(12.9)

**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)**

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

	Group			Group		
	3 months from 1 Oct 2013 to 31 Dec 2013 RMB'000	3 months from 1 Oct 2012 to 31 Dec 2012 RMB'000	Increase/(Decrease) %	9 months from 1 Apr 2013 to 31 Dec 2013 RMB'000	9 months from 1 Apr 2012 to 31 Dec 2012 RMB'000	Increase/(Decrease) %
Amortisation expenses	(799)	(901)	(11.3)	(2,593)	(2,704)	(4.1)
Bad debts written-off	-	-	-	(5)	-	N.M.
Depreciation expenses	(5,150)	(4,962)	3.8	(15,213)	(15,170)	0.3
Foreign exchange adjustment (loss) / gain	201	(203)	N.M.	413	(892)	N.M.
(Loss)/Gain on disposal of property, plant and equipment	(1,355)	83	N.M.	(1,281)	71	N.M.
Gain on disposal of land use rights	-	128	N.M.	-	128	N.M.
Interest expense	(1,700)	(147)	1056.5	(5,094)	(1,659)	207.1
Interest income from bank deposits	150	150	-	529	529	-
Property, plant and equipment written off	-	(584)	N.M.	-	(584)	N.M.
Write back of allowance for impairment on trade receivables	11	19	(42.1)	16	24	(33.3)

**1(a)(ii) A statement of comprehensive income (for the group) together with a comparative statement for the corresponding period of the immediately preceding financial year.**

	Group			Group		
	3 months from 1 Oct 2013 to 31 Dec 2013 RMB'000	3 months from 1 Oct 2012 to 31 Dec 2012 RMB'000	Increase/(Decrease) %	9 months from 1 Apr 2013 to 31 Dec 2013 RMB'000	9 months from 1 Apr 2012 to 31 Dec 2012 RMB'000	Increase/(Decrease) %
<b>Profit attributable to shareholders</b>	699	4,224	(83.5)	8,076	32,428	(75.1)
Foreign currency translation difference	(247)	-	N.M.	(1,409)	593	(337.6)
<b>Total comprehensive income for the period</b>	<u>452</u>	<u>4,224</u>	<u>(89.3)</u>	<u>6,667</u>	<u>33,021</u>	<u>(79.8)</u>

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 December 2013 RMB'000	31 March 2013 RMB'000	31 December 2013 RMB'000	31 March 2013 RMB'000
<b>ASSETS</b>				
<b>Non-current assets :</b>				
Property, plant and equipment	299,902	284,615	257	191
Intangible assets	4,169	4,815	-	-
Other assets, non-current	90,688	92,635	-	-
Deferred tax assets	4,141	4,428	-	-
Investment in subsidiary	-	-	108,616	114,022
<b>Total non-current assets</b>	<b>398,900</b>	<b>386,493</b>	<b>108,873</b>	<b>114,213</b>
<b>Current assets :</b>				
Inventories	60,640	63,080	-	-
Trade and other receivables (Note 1)	86,299	116,243	19,804	36,428
Other assets, current	7,656	15,080	116	66
Cash and cash equivalents	138,152	120,011	96	487
<b>Total current assets</b>	<b>292,747</b>	<b>314,414</b>	<b>20,016</b>	<b>36,981</b>
<b>Total assets</b>	<b>691,647</b>	<b>700,907</b>	<b>128,889</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	260,399	263,139	13,097	27,299
Other reserves	81,889	80,401	(4,543)	2,271
<b>Total equity</b>	<b>459,137</b>	<b>460,389</b>	<b>125,403</b>	<b>146,419</b>
<b>Non-Current liabilities :</b>				
Deferred tax liabilities	4,665	5,144	-	-
<b>Total non-current liabilities</b>	<b>4,665</b>	<b>5,144</b>	<b>-</b>	<b>-</b>
<b>Current liabilities :</b>				
Income tax payable	501	3,316	-	-
Trade and other payables (Note 2)	112,560	133,821	3,486	4,768
Other financial liabilities, current	112,208	96,288	-	7
Other liabilities	2,576	1,949	-	-
<b>Total current liabilities</b>	<b>227,845</b>	<b>235,374</b>	<b>3,486</b>	<b>4,775</b>
<b>Total liabilities</b>	<b>232,510</b>	<b>240,518</b>	<b>3,486</b>	<b>4,775</b>
<b>Total liabilities and equity</b>	<b>691,647</b>	<b>700,907</b>	<b>128,889</b>	<b>151,194</b>
<b>Note 1</b>				
Trade receivables	79,754	107,242	-	-
Amount receivable from subsidiary	-	-	19,804	36,428
Tax recoverable	4,757	4,757	-	-
Other receivables	1,788	4,244	-	-
Trade and other receivables	86,299	116,243	19,804	36,428
<b>Note 2</b>				
Trade payables and accruals	86,271	106,316	3,026	4,596
Other payables	26,289	27,505	460	172
Trade and other payables	112,560	133,821	3,486	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>31 December 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>31 December 2013</b>		<b>31 March 2013</b>	
<b>Secured</b>	<b>Unsecured</b>	<b>Secured</b>	<b>Unsecured</b>
-	-	-	-

**Details of any collateral**

As at 31 December 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 92.6 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 15.7 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 7.28% 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 Oct 2013 to 31 Dec 2013 RMB'000	3 months from 1 Oct 2012 to 31 Dec 2012 RMB'000	9 months from 1 Apr 2013 to 31 Dec 2013 RMB'000	9 months from 1 Apr 2012 to 31 Dec 2012 RMB'000
<b>Cash flows from operating activities</b>				
Profit before income tax	4,329	7,175	17,806	53,910
Adjustments for :				
Amortisation expenses	799	901	2,593	2,704
Bad debts written-off	-	-	5	-
Depreciation expense	5,150	4,962	15,213	15,170
Loss/(Gain) on disposal of property, plant and equipment	1,355	(83)	1,281	(71)
Gain on disposal of land use rights	-	(128)	-	(128)
Interest expenses	1,700	147	5,094	1,659
Interest income	(150)	(150)	(529)	(529)
Provision for safety expenses	1,267	1,010	4,140	4,388
Property, plant and equipment written off	-	584	-	584
Write back of allowance for impairment on trade receivables	(10)	(19)	(15)	(24)
Net effect of exchange rate changes in translation of financial statements of Parent	(243)	-	(1,400)	587
Operating profit before working capital changes	14,197	14,399	44,188	78,250
Inventories	(18,271)	3,131	2,440	5,059
Trade and other receivables	13,915	31,849	26,969	1,184
Other assets	8,677	5,754	7,424	3,153
Trade and other payables	4,688	7,693	(23,401)	24,399
Other liabilities	559	(960)	627	(1,244)
Cash generated from operations	23,765	61,866	58,247	110,801
Income tax paid	(6,806)	(3,651)	(12,737)	(18,536)
<b>Net cash from operating activities</b>	<b>16,959</b>	<b>58,215</b>	<b>45,510</b>	<b>92,265</b>
<b>Cash flows from investing activities</b>				
Proceeds from disposal of property, plant and equipment	345	83	437	111
Proceeds from sale of land use rights	-	-	2,985	-
Purchase of property, plant and equipment	(9,391)	(44,973)	(34,227)	(80,250)
Purchase of land use rights	-	-	-	(390)
Interest received	150	150	529	529
<b>Net cash used in investing activities</b>	<b>(8,896)</b>	<b>(44,740)</b>	<b>(30,276)</b>	<b>(80,000)</b>
<b>Cash flows from financing activities</b>				
Payment of dividends	-	-	(7,919)	(11,831)
Repayment of finance lease obligation	-	(23)	(7)	(64)
Increase in short-term bank loans	-	34,000	16,000	30,000
Repayment of third party loan	-	(78)	(73)	(1,306)
Interest paid	(1,700)	(147)	(5,094)	(1,659)
<b>Net cash (used in) / from financing activities</b>	<b>(1,700)</b>	<b>33,752</b>	<b>2,907</b>	<b>15,140</b>
Net increase in cash	6,363	47,227	18,141	27,405
Cash at beginning of the period	131,789	83,321	120,011	103,143
<b>Cash at end of the period</b>	<b>138,152</b>	<b>130,548</b>	<b>138,152</b>	<b>130,548</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	-	1,674	-	-	(1,674)	-
Dividend paid	-	-	-	-	(7,919)	(7,919)
Total comprehensive (loss)/ income for the period	-	-	-	(1,162)	7,377	6,215
Balance at 30 September 2013	116,849	36,683	44,000	230	260,923	458,685
Appropriation for the period	-	1,223	-	-	(1,223)	-
Total comprehensive (loss)/ income for the period	-	-	-	(247)	699	452
Balance at 31 December 2013	116,849	37,906	44,000	(17)	260,399	459,137
Balance at 1 April 2012	116,849	42,546	-	1,086	279,925	440,406
Appropriation for the period	-	3,765	-	-	(3,765)	-
Dividend paid	-	-	-	-	(11,831)	(11,831)
Total comprehensive income for the period	-	-	-	593	28,204	28,797
Balance at 30 September 2012	116,849	46,311	-	1,679	292,533	457,372
Appropriation for the period	-	937	-	-	(937)	-
Total comprehensive income for the period	-	-	-	-	4,224	4,224
Balance at 31 December 2012	116,849	47,248	-	1,679	295,820	461,596
<b>Company (RMB'000)</b>						
	Share capital	Foreign exchange translation reserve	Retained earnings/ (Accumulated losses)	Total		
Balance at 1 April 2013	116,849	2,271	27,299	146,419		
Dividend paid	-	-	(7,919)	(7,919)		
Total comprehensive loss for the period	-	(4,956)	(4,044)	(9,000)		
Balance at 30 September 2013	116,849	(2,685)	15,336	129,500		
Total comprehensive loss for the period	-	(1,858)	(2,239)	(4,097)		
Balance at 31 December 2013	116,849	(4,543)	13,097	125,403		
Balance at 1 April 2012	116,849	1,241	31,635	149,725		
Dividend paid	-	-	(11,831)	(11,831)		
Total comprehensive income/(loss) for the period	-	3,479	(7,258)	(3,779)		
Balance at 30 September 2012	116,849	4,720	12,546	134,115		
Total comprehensive income/(loss) for the period	-	21	(2,304)	(2,283)		
Balance at 31 December 2012	116,849	4,741	10,242	131,832		

**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>31 December 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 31 Dec 2013	3 months ended 31 Dec 2012	9 months ended 31 Dec 2013	9 months ended 31 Dec 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	0.30	1.81	3.45	13.86
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	
	31 Dec 2013	31 March 2013	31 Dec 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	196.21	196.75	53.59	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

Revenue for the 3-month period ended 31 December 2013 ("3Q2014") decreased by approximately RMB 3.1 million or 3.2%, from RMB 97.3 million of the 3-month period ended 31 December 2012 ("3Q2013") to RMB 94.2 million in 3Q2014. The decrease in revenue during 3Q2014 was mainly attributed to the lower sales of all our product segments except for industrial detonators which registered a growth of 21.0%.

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 3Q2014 and 3Q2013 and between 9-month period ended 31 December 2013 ("9M2014") and the 9-month period ended 31 December 2012 ("9M2013") are as follows:

	3Q2014		3Q2013		% change
	RMB'000	%	RMB'000	%	
Explosives devices	26,619	28.3	29,074	29.9	(8.4)
Industrial fuse and initiating explosive devices	21,917	23.3	25,676	26.4	(14.6)
Industrial detonators	23,078	24.5	19,074	19.6	21.0
Ammonium Nitrate	22,080	23.4	23,092	23.7	(4.4)
Others <sup>(1)</sup>	461	0.5	353	0.4	30.6
	<b>94,155</b>	<b>100.0</b>	<b>97,269</b>	<b>100.0</b>	<b>(3.2)</b>

Within PRC	70,685	75.1	77,134	79.3	(8.4)
<u>Outside PRC</u>					
Sales through export distributors <sup>(2)</sup>	3,011	3.2	2,743	2.8	9.8
Australia	17,346	18.4	15,966	16.4	8.6
Others	3,113	3.3	1,426	1.5	118.3
	<b>23,470</b>	<b>24.9</b>	<b>20,135</b>	<b>20.7</b>	<b>16.6</b>
	<b>94,155</b>	<b>100.0</b>	<b>97,269</b>	<b>100.0</b>	<b>(3.2)</b>

	9M2014		9M2013		% change
	RMB'000	%	RMB'000	%	
Explosives devices	91,522	29.1	122,669	31.5	(25.4)
Industrial fuse and initiating explosive devices	76,355	24.3	91,092	23.4	(16.2)
Industrial detonators	72,161	22.9	69,215	17.7	4.3
Ammonium Nitrate	74,225	23.6	105,859	27.1	(29.9)
Others <sup>(1)</sup>	462	0.1	1,167	0.3	(60.4)
	<b>314,725</b>	<b>100.0</b>	<b>390,002</b>	<b>100.0</b>	<b>(19.3)</b>
Within PRC	230,875	73.3	295,253	75.7	(21.8)
<u>Outside PRC</u>					
Sales through export distributors <sup>(2)</sup>	12,664	4.0	18,949	4.8	(33.2)
Australia	64,365	20.5	63,049	16.2	2.1
Others	6,821	2.2	12,751	3.3	(46.5)
	<b>83,850</b>	<b>26.7</b>	<b>94,749</b>	<b>24.3</b>	<b>(11.5)</b>
	<b>314,725</b>	<b>100.0</b>	<b>390,002</b>	<b>100.0</b>	<b>(19.3)</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 3Q2014, sales within PRC decreased by approximately RMB 6.4 million or 8.4% as compared to 3Q2013. The decrease was mainly attributed to the lower PRC sales of explosives devices, industrial fuse and initiating explosive devices and ammonium nitrate.

For the 9M2014, sales within PRC decreased by approximately RMB 64.4 million or 21.8% from RMB 295.3 million in 9M2013 to RMB 230.9 million in 9M2014. . The decrease in sales within PRC was mainly due to lower sales of ammonium nitrate by approximately RMB 31.6 million, lower sales of explosives devices and industrial fuse and initiating explosive devices by approximately RMB 16.3 million and RMB 15.6 million respectively.

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 increased slightly by approximately RMB 0.3 million or 9.8% for 3Q2014. However, during 9M2014, sales through export distributors decreased by approximately RMB 6.3 million or 33.2%. The decline is mainly due to the decrease in sales to South Africa through an export distributor.

c) Sales to Australia

During 3Q2014, sales to Australia increased by approximately RMB 1.4 million or 8.6% mainly due to higher sales to Dyno Nobel Australia of RMB 1.3 million.

During 9M2014, sales to Australia increased slightly by approximately RMB 1.3 million or 2.1% mainly due to increased sales to Orica Australia of approximately RMB 3.5 million and Beston Australia of approximately RMB 2.2 million, partially offset by the decrease in sales to Dyno Nobel Australia by approximately RMB 4.4 million.

d) Sales to other countries

Sales to other countries increased by approximately RMB 1.7 or 16.6% during 3Q2014. For 9M2014, sales to other countries decrease by approximately RMB 5.9 million or 46.5%.

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 3Q2014, the Group's gross profit margins improved marginally by 1.5 percentage points from 25.2% in 3Q2013 to 26.7% in 3Q2014. However, during 9M2014, the Group's gross profit margin dipped by approximately 4.1 percentage points, from 28.6% in 9M2013 to 24.5% in 9M2014.

The decline in gross profit margin for 9M2014 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 18.5% during 9M2014 as compared to 9M2013.

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 margin.

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

For 3Q2014 and 9M2014, interest income remained stable at approximately RMB 150,000 and RMB 529,000, respectively.

For 3Q2014 and 9M2014, finance costs increased by approximately RMB 1.6 million and RMB 3.4 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 3Q2014, other credits relate to foreign exchange adjustment gain of approximately RMB 201,000, government grant of RMB 45,000 and a write back of allowance for impairment on trade receivables of approximately RMB 11,000. For 3Q2013, other credits relate to gain on disposal of property, plant and equipment of approximately RMB 83,000, gain on disposal of land use rights of RMB 128,000, a government grant of RMB 26,000 and a write back of allowance for impairment on trade receivables of RMB 19,000.

For 9M2014, other credits relate to foreign exchange adjustment gain of approximately RMB 413,000, government grant of RMB 575,000 and write back of allowance for impairment on trade receivables of approximately RMB 16,000. For 9M2013, other credits relate to gain on disposal of property, plant and equipment of approximately RMB 71,000, gain on disposal of land use rights of RMB 128,000, government grants of RMB 1.4 million and write-back of allowance for impairment on trade receivables of RMB 24,000.

The government grants were issued by Shandong Province, Fei County and Hebei Province, Linxi County's government entities for our subsidiaries on an ad hoc basis.

For 3Q2014, other charge relates to a loss on disposal of property, plant and equipment of approximately RMB 1.4 million. For 9M2014, other charges relates to bad debts written-off of RMB 5,000 and loss on disposal of property, plant and equipment of approximately RMB 1.3 million. The loss on disposal is mainly due to the disposal of unused or retired machineries in December 2013.

For 3Q2013 and 9M2013, other charges relate to foreign exchange adjustment loss and property, plant and equipment written off.

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

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**

For 3Q2014, both distribution costs and administrative expenses were higher than 3Q2013 due to increase in transportation expenses, salary and related expenses and port admin charges during the period under review.

However, for 9M2014, distribution costs decreased by approximately RMB 460,000 or 2.0% from 9M2013's RMB 23.1 million to 9M2014's RMB 22.6 million and administrative expenses also decreased by approximately RMB 2.0 million or 5.9% from 9M2013's RMB 33.8 million to 9M2014's RMB 31.8 million. The decrease in operating expenses was mainly attributed to the decrease in sales revenue, partially offset by the increase in transportation expenses and salary and related expenses.

The increment in transportation expenses was mainly due to the higher market transportation charges. In addition, salary and related expenses increased by 10%-15% among all the employees in view of the inflationary situation in China.

#### **Income tax expenses**

The effective tax rate for 3Q2014 and 9M2014 was 83.9% and 54.6% respectively (3Q2013: 41.5% ; 9M2013: 39.8%). This is higher than the PRC concessionary tax rate of 25.0% mainly due to the non-deductible expenses and loss-making status of Hebei Yinguang.

#### **Balance sheet**

Property, plant and equipment increased by approximately RMB 15.3 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 0.6 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 1.9 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 20.7%, 29.5%, 2.6% and 47.2% respectively of our total current assets as at 31 December 2013.

Inventories decreased by approximately RMB 2.4 million or 3.9% to RMB 60.6 million as at 31 December 2013, as compared to RMB 63.1 million as at 31 March 2013. The decline was mainly due to the lower raw materials held on hand.

During the current period, trade receivables decreased by approximately RMB 27.5 million mainly due to improved trade receivables collection. Other receivables decreased by approximately RMB 2.5 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.

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 (Cont'd)**

Other assets, current comprising the Group's prepayments, decreased by approximately RMB 7.4 million or 49.2% to RMB 7.7 million as at 31 December 2013. The decrease is mainly due to lesser prepayments for raw materials.

As at 31 December 2013, our current liabilities comprised of income tax payable of RMB 0.5 million, trade and other payables of approximately RMB 112.6 million, other current financial liabilities of approximately RMB 112.2 million and other liabilities of RMB 2.6 million. Non-current liabilities comprised of deferred tax liabilities of RMB 4.7 million.

Trade and other payables decreased by approximately RMB 21.3 million mainly due to the payment to creditors for the purchase of raw materials.

As at 31 December 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 2.6 million relate to the Group's advances from customers.

Deferred tax liabilities of RMB 4.7 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.

#### **Cash flow**

For the 3 months ended 31 December 2013, the Group recorded net cash from operating activities of approximately RMB 17.0 million, net cash used in investing of approximately RMB 8.9 million and net cash used in financing activities of approximately RMB 1.7 million.

For the current 9 months ended 31 December 2013, the Group recorded net cash generated from operating activities of approximately RMB 45.5 million, net cash used in investing activities of approximately RMB 30.3 million and net cash from financing activities of approximately RMB 2.9 million.

The net cash from operating activities during 3Q2014 and 9M2014 of approximately RMB 17.0 million and RMB 45.5 million was mainly due to improved debtors' recovery and lower prepayment for bulk purchase of raw materials.

The cash outflow in investing activities for 3Q2014 and 9M2014 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 used in financing activities for 3Q2014 relates to interest payment. The net cash inflow from financing activities for 9M2014 was mainly due to the increase in short-term bank loan of RMB 16.0 million, partially offset by the payment of dividends of approximately RMB 7.9 million and interest payment of approximately RMB 5.1 million. The additional bank loans of RMB 16.0 million were secured using the newly acquired land and buildings purchased from a related party.

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 weak market conditions for ammonium nitrate, this product segment is expected to incur an operating loss for the current financial year which will negatively impact on the Group's profit for FY2014. The management will continue to monitor the situation and update Shareholders of any other material impact to the Group accordingly.

Acquisition of new machineries and equipments for detonating cords production

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.

In view of the above, the authorities have requested for an early fixed assets retirement on some of our existing detonating cords machineries and equipments. As a result, it is estimated that a capital investment of approximately RMB 7.0 million will be required to replace these machineries and equipments.

The management does not expect this capital investment to have a material impact to our FY2014's results.

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)	
		3Q2014	3Q2013	3Q2014	3Q2013
Name of interested person	Nature	RMB'000	RMB'000	RMB'000	RMB'000
Feixian Yinguang Transport Co., Ltd	Payment of transportation charges	1,323	894	-	-
Shandong Yinguang Commerical Explosives Sales and Services Co., Ltd	Sales of commercial explosives products	1,748	395	-	-
Shandong Yinguang Minbao Qicai Co., Ltd <sup>(1)</sup>	Sales of ammonium nitrate	1,754	-	-	-
Shandong Yinguang Drawnwork Co., Ltd	Purchase of textile products	87	25	-	-
Dyno Nobel <sup>(2)</sup>	Sales of commercial explosives	-	-	5,665	2,689
		<b>9M2014</b>	<b>9M2013</b>	<b>9M2014</b>	<b>9M2013</b>
Feixian Yinguang Transport Co., Ltd	Payment of transportation charges	4,212	3,873	-	-
Shandong Yinguang Commerical Explosives Sales and Services Co., Ltd	Sales of commercial explosives products	4,807	1,887	-	-
Shandong Yinguang Minbao Qicai Co., Ltd <sup>(1)</sup>	Sales of ammonium nitrate	14,971	402	-	1,712
Shandong Yinguang Drawnwork Co., Ltd	Purchase of textile products	530	37	-	-
Dyno Nobel <sup>(2)</sup>	Sales of commercial explosives	-	-	15,953	24,722

Footnote:

<sup>(1)</sup> The relevant general mandate was updated and approved at the Annual General Meeting ("AGM") held on 28 July 2011. However, it was not updated during the AGM 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. Shandong Yinguang Chemical Group Co., Ltd transferred the business to Shandong Yinguang Minbao Qicai Co., Ltd.

<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 27 July 2012.

**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 3<sup>rd</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  
7 FEBRUARY 2014**