



## Fabchem China Limited

Company registration number : 200413128G

Financial Statements for the 1<sup>st</sup> Quarter ended 30 June 2013 (“1Q2014”)

### PART I – INFORMATION REQUIRED FOR ANNOUNCEMENTS OF QUARTERLY (Q1,Q2 &Q3), HALF-YEAR AND FULL YEAR RESULTS

1(a)(i) 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		Increase/ (Decrease) %
	3 months ended 30 June 2013 RMB'000	3 months ended 30 June 2012 RMB'000	
<b>Revenue</b>	106,778	144,182	(25.9)
Cost of sales	(83,774)	(101,037)	(17.1)
<b>Gross profit</b>	23,004	43,145	(46.7)
<b><u>Other Items of Income</u></b>			
Interest income	124	190	(34.7)
Other credits – Note (i)	755	1,802	(58.1)
<b><u>Other Items of Expense</u></b>			
Distribution costs	(7,688)	(9,004)	(14.6)
Administrative expenses	(10,594)	(11,593)	(8.6)
Finance costs	(1,658)	(810)	104.7
Other charges – Note (ii)	(5)	-	N.M.
<b>Profit before income tax</b>	3,938	23,730	(83.4)
Income tax expense	(2,259)	(6,915)	(67.3)
<b>Profit attributable to shareholders</b>	1,679	16,815	(90.0)

#### Note (i) – Other Credits

Allowance for impairment on trade receivables - reversal	5	-	N.M.
Gain on disposal of property, plant and equipment	-	10	N.M.
Foreign exchange adjustment gain	750	432	73.6
Government grant	-	1,360	N.M.
	755	1,802	(58.1)

#### Note (ii) – Other Charges

Bad debts written off	(5)	-	N.M.
	(5)	-	N.M.

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

Allowance for impairment on trade receivables - reversal	5	-	N.M.
Amortisation expenses	(895)	(573)	56.2
Bad debts written off	(5)	-	N.M.
Depreciation expenses	(4,974)	(5,377)	(7.5)
Foreign exchange adjustment gain	750	432	73.6
Gain on disposal of property, plant and equipment	-	10	N.M.
Interest expense	(1,658)	(810)	104.7
Interest income from bank deposits	124	190	(34.7)

1(a)(ii) 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)

	<b>Group</b>		<b>Increase/ (Decrease)  %</b>
	<b>3 months ended 30 June 2013 RMB'000</b>	<b>3 months ended 30 June 2012 RMB'000</b>	
<b>Profit attributable to shareholders</b>	1,679	16,815	(90.0)
Foreign currency translation difference	(1,149)	(392)	193.1
<b>Total comprehensive income for the period</b>	<u>530</u>	<u>16,423</u>	(96.8)

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	
	30 June 2013 RMB'000	31 March 2013 RMB'000	30 June 2013 RMB'000	31 March 2013 RMB'000
<b>ASSETS</b>				
<b>Non-current assets :</b>				
Property, plant and equipment	289,255	284,615	167	191
Intangible assets	4,601	4,815	-	-
Other assets, non-current	91,954	92,635	-	-
Deferred tax assets	4,417	4,428	-	-
Investment in subsidiary	-	-	109,892	114,022
<b>Total non-current assets</b>	<b>390,227</b>	<b>386,493</b>	<b>110,059</b>	<b>114,213</b>
<b>Current assets :</b>				
Inventories	51,093	63,080	-	-
Trade and other receivables (Note 1)	116,209	116,243	35,481	36,428
Other assets, current	14,572	15,080	141	66
Cash and cash equivalents	104,122	120,011	74	487
<b>Total current assets</b>	<b>285,996</b>	<b>314,414</b>	<b>35,696</b>	<b>36,981</b>
<b>Total assets</b>	<b>676,223</b>	<b>700,907</b>	<b>145,755</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	264,189	263,139	26,114	27,299
Other reserves	79,881	80,401	(3,008)	2,271
<b>Total equity</b>	<b>460,919</b>	<b>460,389</b>	<b>139,955</b>	<b>146,419</b>
<b>Non-Current liabilities :</b>				
Deferred tax liabilities	5,259	5,144	-	-
Other financial liabilities	-	-	-	-
<b>Total non-current liabilities</b>	<b>5,259</b>	<b>5,144</b>	<b>-</b>	<b>-</b>
<b>Current liabilities :</b>				
Income tax payable	1,783	3,316	-	-
Trade and other payables (Note 2)	105,893	133,821	5,800	4,768
Other financial liabilities, current	100,234	96,288	-	7
Other liabilities	2,135	1,949	-	-
<b>Total current liabilities</b>	<b>210,045</b>	<b>235,374</b>	<b>5,800</b>	<b>4,775</b>
<b>Total liabilities</b>	<b>215,304</b>	<b>240,518</b>	<b>5,800</b>	<b>4,775</b>
<b>Total liabilities and equity</b>	<b>676,223</b>	<b>700,907</b>	<b>145,755</b>	<b>151,194</b>
<b>Note 1</b>				
Trade receivables	110,568	107,242	-	-
Amount receivable from subsidiary	-	-	35,481	36,428
Tax recoverable	4,757	4,757	-	-
Other receivables	884	4,244	-	-
<b>Total trade and other receivables</b>	<b>116,209</b>	<b>116,243</b>	<b>35,481</b>	<b>36,428</b>
<b>Note 2</b>				
Trade payables and accruals	75,938	106,316	5,181	4,596
Other payables	29,955	27,505	619	172
<b>Total trade and other payables</b>	<b>105,893</b>	<b>133,821</b>	<b>5,800</b>	<b>4,768</b>

**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 June 2013</b>		<b>31 March 2013</b>	
<b>Secured</b>	<b>Unsecured</b>	<b>Secured</b>	<b>Unsecured</b>
72,000	28,234	68,007	28,281

**Amount repayable after one year**

**(RMB'000)**

<b>30 June 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 30 June 2013, the Group has secured borrowings comprising secured short-term loans from financial institutions of RMB 72.0 million. Unsecured borrowings relates to 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 58.0 million are secured using Shandong Yinguang Technology Co., Ltd's ("Yinguang Technology") land and buildings with net book value of approximately RMB 95.0 million. The secured short-term bank loans' interest rates ranged from 5.88% to 6.9% per annum. 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 16.0 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. Unsecured short-term bank loan of RMB 20.0 million is guaranteed by a corporate guarantee from Yinguang Chemical Group, and has 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.

	<b>Group</b>	
	<b>3 months ended 30 June 2013 RMB'000</b>	<b>3 months ended 30 June 2012 RMB'000</b>
<b>Cash flows from operating activities</b>		
Profit before income tax	3,938	23,730
Adjustments for :		
Amortisation expenses	895	573
Depreciation expense	4,974	5,377
Allowance for impairment on trade receivables - reversal	(5)	-
Bad debts written off	5	-
Gain on disposal of property, plant and equipment	-	(10)
Interest income	(124)	(190)
Interest expenses	1,658	810
Net effect of exchange rate changes in translation of financial statements of Parent	(1,151)	(389)
Operating profit before working capital changes	10,190	29,901
Inventories	11,987	426
Trade and other receivables	(2,951)	(23,653)
Other assets	508	(4,035)
Trade and other payables	(27,928)	21,731
Other liabilities	186	(271)
Cash generated from operations	(8,008)	24,099
Income tax paid	(3,666)	(4,607)
<b>Net cash (used in)/from operating activities</b>	<b>(11,674)</b>	<b>19,492</b>
<b>Cash flows from investing activities</b>		
Proceeds from sale of property, plant and equipment	-	17
Proceeds from sale of land use rights	2,985	-
Purchase of property, plant and equipment	(9,612)	(3,638)
Purchase of land use rights	-	(390)
Interest received	124	190
<b>Net cash used in investing activities</b>	<b>(6,503)</b>	<b>(3,821)</b>
<b>Cash flows from financing activities</b>		
Repayment of finance lease obligation	(7)	(22)
Repayment of third party loan	(47)	(1,228)
Increase in bank loans	4,000	-
Interest paid	(1,658)	(810)
<b>Net cash from/(used in) financing activities</b>	<b>2,288</b>	<b>(2,060)</b>
Net (decrease)/increase in cash	(15,889)	13,611
Cash at beginning of the period	120,011	103,143
<b>Cash at end of the period</b>	<b>104,122</b>	<b>116,754</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 reserve	Capital reserve	Foreign currency 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 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
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 income for the period	-	-	-	(392)	16,815	16,423
Balance at 30 June 2012	116,849	44,344	-	694	294,942	456,829

	Share capital	Foreign currency translation reserves	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
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

**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 well as the number of shares held as treasury shares, if any, against the total number of issued shares excluding treasury shares of the issuer, as at the end of the current financial period reported on and as at the end of the corresponding period of the immediately preceding financial year.**

Not applicable.

**1(d)(iii) To show the total number of issued shares excluding treasury shares as at the end of the current financial period and as at the end of the immediately preceding year.**

	Group	
	30 June 2013	31 March 2013
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 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.**

	<b>Group</b>	
	<b>3 months ended 30 June 2013</b>	<b>3 months ended 30 June 2012</b>
	<b>RMB cents</b>	<b>RMB cents</b>
Earnings per ordinary share for the year based on net profit attributable to shareholders :		
Based on weighted average number of ordinary shares in issue	0.72	7.19
Weighted average number of ordinary shares in issue for basic earnings per share	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 the total number of issued shares excluding treasury shares of the issuer at the end of the :-**  
 (a) **current financial period reported on; and**  
 (b) **immediately preceding financial year.**

	<b>Group</b>		<b>Company</b>	
	<b>30 June 2013</b>	<b>31 March 2013</b>	<b>30 June 2013</b>	<b>31 March 2013</b>
	<b>RMB cents</b>	<b>RMB cents</b>	<b>RMB cents</b>	<b>RMB cents</b>
Net asset value per ordinary share based on the issued shares at the end of the financial year	196.97	196.75	59.81	62.57
Number of issued shares use 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 30 June 2013 ("1Q2014") decreased by approximately RMB 37.4 million or 25.9%, from RMB 144.2 million of the 3-month period ended 30 June 2012 ("1Q2013") to RMB 106.8 million in 1Q2014. The decline in revenue was mainly due to the general decrease of revenue in all our product segments.

Our products can be categorised mainly into (a) explosive devices such as boosters and seismic 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 1Q2014 and 1Q2013 are as follows:

	Group				% change
	3 months ended 30 June 2013 ("1Q2014")		3 months ended 30 June 2012 ("1Q2013")		
	RMB'000	%	RMB'000	%	
Explosive devices	30,060	28.1	38,042	26.4	(21.0)
Industrial fuse and initiating explosive devices	28,786	27.0	32,838	22.8	(12.3)
Industrial detonators	24,233	22.7	26,167	18.1	(7.4)
Ammonium Nitrate	23,698	22.2	46,529	32.3	(49.1)
Others <sup>(1)</sup>	1	N.M.	606	0.4	(99.8)
	<b>106,778</b>	<b>100.0</b>	<b>144,182</b>	<b>100.0</b>	<b>(25.9)</b>

	Group				% change
	3 months ended 30 June 2013 ("1Q2014")		3 months ended 30 June 2012 ("1Q2013")		
	RMB'000	%	RMB'000	%	
Within PRC	78,716	73.7	113,787	78.9	(30.8)
<u>Outside PRC</u>					
Sales through export distributors <sup>(2)</sup>	3,832	3.6	9,799	6.8	(60.9)
Australia	23,141	21.7	14,886	10.3	55.5
Others	1,089	1.0	5,710	4.0	(80.9)
	<b>28,062</b>	<b>26.3</b>	<b>30,395</b>	<b>21.1</b>	<b>(7.7)</b>
	<b>106,778</b>	<b>100.0</b>	<b>144,182</b>	<b>100.0</b>	<b>(25.9)</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.

#### a) Sales within PRC

Sales within PRC decreased by approximately RMB 35.1 million or 30.8% to RMB 78.7 million in 1Q2014, as compared to RMB 113.8 million in the previous corresponding period. The decrease was mainly due to the lower sales of ammonium nitrate and the cease production directive for all Shandong commercial explosives companies (which occurred between 20 May 2013 to 14 June 2013).



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 (Cont'd)**

Reflecting the slowdown in China's economy and decrease in mining and infrastructure development activities, the market-driven selling prices of explosive-grade ammonium nitrate has been experiencing continued pressure. To mitigate against the effects of deteriorating selling prices, our subsidiary, Hebei Yinguang, has been implementing a series of cost-cutting and productivity measures.

Due the cease production directive, our subsidiary, Yinguang Technology was not able to manufacture any commercial explosives but the sales activities to domestic and overseas customers continued with the limited current inventories on hand. Nevertheless, the downtime in production from this temporary directive has disrupted Yinguang Technology's production schedule for our projected sales activities.

b) **Sales through export distributors and other countries**

Sales through export distributors and other countries decreased by approximately RMB 6.0 million or 60.9% and RMB 4.6 million or 80.9% respectively.

The decrease was mainly due to the temporary cease production directive which restricted our production and sales volume.

c) **Sales to Australia**

Sales to Australia increased by approximately RMB 8.3 million or 55.5%. The increase is mainly due to increase in sales to Orica Australia by approximately RMB 8.6 million.

All local 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**

Gross profit margin decreased by approximately 8.4 percentage points, from 29.9% during 1Q2013 to 21.5% during 1Q2014. The decrease is mainly due to the lower market-driven selling price of ammonium nitrate and the rising raw materials prices (in particular RDX and PETN) during the current quarter as compared to the previous corresponding quarter. In addition, the temporary cease production directive has affected our production efficiency, which indirectly affected our average cost of goods sold per unit.

**Interest income / (Finance costs)**

Interest income decreased by approximately RMB 66,000 was mainly due to the lower average bank deposits and lower interest rate during the current period under review. Finance costs increased by approximately RMB 848,000 mainly due to the higher bank loans recorded during the current period under review.

**Other credits / (Other charges)**

Other credits for the current quarter ended 30 June 2013 comprise reversal of allowance for impairment on trade receivables of RMB 5,000 and foreign exchange adjustment gain of approximately RMB 750,000. For the previous corresponding quarter ended 30 June 2012, other credits comprise of gain on disposal of property, plant and equipment of approximately RMB 10,000, foreign exchange adjustment gain of approximately RMB 432,000 and government grant of approximately RMB 1.4 million..

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

**Other credits / (Other charges) (Cont'd)**

Government grant relates to a grant by Hebei Province, Linxi County's government for our subsidiary, Hebei Yinguang Chemical Co., Ltd.

Other charges for 1Q2013 relates to a bad debt of approximately RMB 5,000 that was written-off.

Foreign exchange adjustment gain or loss arises from foreign exchange rate changes between Renminbi (RMB), US Dollars and Singapore Dollars.

**Operating expenses**

Distribution costs decreased by approximately RMB 1.3 million or 14.6% to RMB 7.7 million in 1Q2014 from RMB 9.0 million in 1Q2013 which is in line with the decrease in our revenue.

Administrative expenses decreased by approximately RMB 1.0 million or 8.6% to RMB 10.6 million in 1Q2014 from RMB 11.6 million in 1Q2013 which is in line with the decrease in our revenue. 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 incurred during the period of the cease production directive.

**Income tax expenses**

The effective tax rate for 1Q2014 was 57.4% (1Q2013: 29.1%). This is higher than the PRC concessionary tax rate of 25.0% mainly due to a larger proportion of non-deductible expenses in relation to the taxable profit of the Group.

**Balance sheet**

Property, plant and equipment increased by approximately RMB 4.6 million, mainly due to acquisition of property, plant and equipment for the boosters upgrading and detonating cords expansion projects, 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 0.2 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 0.7 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 17.9%, 40.6%, 5.1% and 36.4% respectively of our total current assets as at 30 June 2013.

Inventories decreased by approximately RMB 12.0 million or 19.0% to RMB 51.1 million as at 30 June 2013, as compared to RMB 63.1 million as at 31 March 2013. The decrease is mainly due to the reduction in finished goods, which was a result of the temporary cease production directive as mentioned earlier.

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)**

During the current quarter, trade receivables increased by approximately RMB 3.3 million mainly due to slower trade receivables collection as a result of the cease production directive. Other receivables decreased by approximately RMB 3.4 million or 79.2%, 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, decreased marginally by approximately RMB 0.5 million or 3.4% to RMB 14.8 million as at 30 June 2013.

As at 30 June 2013, our current liabilities comprised of income tax payable of RMB 1.8 million, trade and other payables of approximately RMB 105.9 million, other current financial liabilities of approximately RMB 100.2 million and other liabilities of RMB 2.2 million. Non-current liabilities comprised of deferred tax liabilities of RMB 5.3 million.

Trade and other payables decreased by approximately RMB 27.9 million mainly due to the payment to creditors for the purchase of raw materials.

As at 30 June 2013, other current financial liabilities of RMB 100.2 million comprised of bank loans of RMB 92.0 million and third party loan of RMB 8.2 million. The increment of RMB 3.9 million from RMB 96.3 million as at 31 March 2013 was mainly due to the additional bank loans secured by the Group.

Other liabilities of RMB 2.1 million relate to the Group's advances from customers.

Deferred tax liabilities of RMB 5.3 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 current quarter ended 30 June 2013, the Group's net cash used in operating activities of approximately RMB 11.7 million, net cash used in investing activities of approximately RMB 6.5 million and net cash from financing activities of approximately RMB 2.3 million.

The net cash used in operating activities of approximately RMB 11.7 million was mainly due to slower trade receivables collection and faster payments to creditors.

The net cash used in investing activities of approximately RMB 6.5 million was mainly due to the acquisition of property, plant and equipment for the upgrading of boosters and 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 RMB 2.3 million was mainly due to the increase in bank loans of RMB 4.0 million, partially offset by the payment of interest expenses, financial lease obligation 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.**

Other than the Profit Warning issued on 17 June 2013, no other forecast or prospect statement has been issued.

The management estimated that during the period of cease production, the Group lost estimated sales revenue of RMB 38.3 million which materially impacted on the Group's profitability for the current quarter ended 30 June 2013.

**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.**

*Additional detonating cords production facilities to start commercial production*

Following our earlier announcements on the additional detonating cords production facilities, the management is pleased to announce that the new detonating cords production facilities have obtained the relevant production approvals and has started normal commercial production.

Currently, our existing detonating cords facilities are operating at near-full production capacity.

*Update on the new ammonium nitrate production facilities*

Following our earlier announcement on the new ammonium nitrate production facilities, the construction of new facilities is underway.

Due to the slowdown in China's economy and weakening market conditions of ammonium nitrate, the management will continue to monitor the situation and will update shareholders of any material impact to the Group accordingly.

*Heightened production regulations in China after the unfortunate explosion accident at an unrelated commercial explosive manufacturing plant in Shandong Province*

Since the unfortunate explosion accident at an unrelated commercial explosive manufacturing plant in Jinan, Shandong Province on 20 May 2013, both MIIT and provincial government have heightened the production regulations on operating hours and production volume, which will affect the entire industry in China. And as a result, it will reduce the overall production capacity for our commercial explosive products. Based on preliminary review and assessment, the Group's production capacity will be affected as depicted in the table below:

<b>Production Capacity</b>	<b>Before</b>	<b>Revised</b>
Boosters (tons)	5,000	4,500
Detonating Cords ('000 meters)	80,000	60,000
Non-electric tubes ('000 meters)	250,000	200,000
Piston non-electric detonators ('000 units)	60,000	50,000
Seismic charges (tons)*	3,000	0

\*The unfortunate explosion accident occurred at a seismic charge plant in Jinan and as such, all production of seismic charges in Shandong Province is required to permanently cease production. The cease production of seismic charges will not have a material impact on the Group's profitability.

Apart from the seismic charges which will no longer be produced, the revised production capacity should enable the Group to meet our anticipated customer demand for FY2014.

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

**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 transaction (excluding transactions less than \$100,000 and transactions conducted under a shareholders' mandate pursuant to Rule 920)		Aggregate value of all interested person transactions conducted under a shareholders' mandate pursuant to Rule 920 (excluding transactions less than \$100,000)	
		1Q2014	1Q2013	1Q2014	1Q2013
Name of interested person	Nature	RMB'000	RMB'000	RMB'000	RMB'000
Feixian Yinguang Transport Co., Ltd	Payment of transportation charges	2,076	1,077	-	-
Shandong Yinguang Commerical Explosives Sales and Services Co., Ltd	Sales of commercial explosives products	1,280	916	-	-
Shandong Yinguang Chemical Group Co., Ltd <sup>(1)</sup>	Sales of ammonium nitrate	3,357	-	-	1,628
Dyno Nobel <sup>(2)</sup>	Sales of commercial explosives	-	-	3,775	9,623

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(4) 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 1<sup>st</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**  
**13 AUGUST 2013**