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DONGGUANG CHEMICAL LIMITED

東光化工有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 1702)

**ANNOUNCEMENT OF INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 JUNE 2020**

The board (the “**Board**”) of directors (“**Directors**”) of Dongguang Chemical Limited (the “**Company**”) is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (collectively, the “**Group**”) for the six months ended 30 June 2020 (the “**Reporting Period**”). The relevant financial figures for the corresponding period in 2019 or other dates/periods are also set out in this announcement for comparative purposes.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2020

		Six months ended 30 June	
	<i>Notes</i>	2020	2019
		RMB'000	RMB'000
		(Unaudited)	(Unaudited)
Revenue	6	996,087	1,117,147
Cost of sales		<u>(874,543)</u>	<u>922,412</u>
Gross profit		121,544	194,735
Other income	6	4,513	5,580
Other gains or losses, net	7	(2,491)	(1,796)
Administrative expenses		(33,663)	(30,571)
Distribution expenses		(1,482)	(1,317)
Finance costs	9	(9,471)	(19,884)
Profit before income tax	10	78,950	146,747
Income tax expenses	11	(22,741)	(34,013)
Profit for the period		56,209	112,734
Other comprehensive income that may be reclassified to profit or loss in subsequent periods			
Exchange differences on translation of foreign operation		<u>1,040</u>	<u>(752)</u>
Total comprehensive income for the period attributable to owners of the Company		<u>57,249</u>	<u>111,982</u>
Profit attributable to:			
– Owners of the Company		54,895	112,734
– Non-controlling interest		1,314	–
		<u>56,209</u>	<u>112,734</u>
Total comprehensive income attributable to:			
– Owners of the Company		55,935	111,982
– Non-controlling interest		1,314	–
		<u>57,249</u>	<u>111,982</u>
		<i>RMB cents</i>	<i>RMB cents</i>
Earnings per share for profit attributable to the owners of the Company			
– Basic	13	<u>8.8</u>	<u>18.2</u>
– Diluted	13	<u>8.8</u>	<u>18.2</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2020

		At 30 June 2020 <i>RMB'000</i> (Unaudited)	At 31 December 2019 <i>RMB'000</i> (Audited)
Non-current assets			
Property, plant and equipment	<i>14</i>	1,073,824	1,115,260
Investment property		15,252	6,182
Right-of-use assets		110,029	111,393
Prepayments for equipment	<i>17</i>	2,413	1,556
		1,201,518	1,234,391
Total non-current assets			
Current assets			
Inventories	<i>15</i>	43,405	80,903
Trade receivables	<i>16</i>	14,629	–
Prepayments, deposits and other receivables	<i>17</i>	63,970	72,283
Notes receivables		–	188
Restricted bank deposits		–	5,000
Cash and bank balance		419,097	431,825
		541,101	590,199
Total current assets			
Current liabilities			
Trade payables	<i>18</i>	74,520	77,362
Deferred revenue		3,253	3,253
Contract liabilities	<i>6</i>	32,803	44,654
Other payables and accruals	<i>19</i>	41,912	65,163
Lease liabilities		80	110
Short-term bank and other borrowings	<i>20</i>	373,000	418,058
Long-term bank borrowings – current portion	<i>20</i>	–	24,000
Income tax payable		11,398	7,511
Amount due to a non-controlling shareholder of a subsidiary	<i>22(a)</i>	40	40
		537,006	640,151
Total current liabilities			

	At	At
	30 June	31 December
	2020	2019
<i>Notes</i>	RMB'000	RMB'000
	(Unaudited)	(Audited)
Net current assets/(liabilities)	4,095	(49,952)
Non-current liabilities		
Lease liabilities	29,259	28,213
Deferred revenue	5,638	7,266
Deferred tax liabilities	1,692	3,578
Total non-current liabilities	36,589	39,057
Net assets	1,169,024	1,145,382
Capital and reserves attributable to owners of the Company		
Share capital	392	392
Reserves	1,165,358	1,143,030
Equity attributable to owners of the Company	1,165,750	1,143,422
Non-controlling interests	3,274	1,960
Total equity	1,169,024	1,145,382

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Dongguang Chemical Limited (the “**Company**”) was incorporated in the Cayman Islands on 26 July 2013 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Pursuant to the special resolutions of shareholders dated 17 June 2015, the Company changed its name from Sino-coal Chemical Limited (中煤化工有限公司) to Dongguang Chemical Limited (東光化工有限公司). Its shares are listed on the Stock Exchange of Hong Kong Limited. The address of its registered office is Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman KY1-1111, Cayman Islands. The Company and its subsidiaries (collectively, the “**Group**”) are principally engaged in manufacturing and selling urea in the People’s Republic of China (the “**PRC**”).

2. BASIS OF PREPARATION

These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 (“**IAS 34**”), issued by the International Accounting Standards Board (“**IASB**”) and the applicable disclosure provisions of Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. These interim condensed consolidated financial statements were authorised for issue on 28 August 2020.

These interim condensed consolidated financial statements have been prepared with the same accounting policies adopted in the 2019 annual financial statements, except for those that relate to new standards or interpretations effective for the first time for periods beginning on or after 1 January 2020. Details of any changes in accounting policies are set out in note 3. The adoption of the new and revised International Financial Reporting Standards (the “**IFRSs**”) have no material effect on these interim condensed consolidated financial statements.

The preparation of these interim condensed consolidated financial statements in compliance with IAS 34 requires the use of certain judgements, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates. The areas where significant judgements and estimates have been made in preparing the consolidated financial statements and their effect are disclosed in note 5.

These interim condensed consolidated financial statements are presented in Renminbi (“**RMB**”), unless otherwise stated. These interim condensed consolidated financial statements contain condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2019 annual financial statements. These interim condensed consolidated financial statements and notes do not include all of the information required for a complete set of financial statements prepared in accordance with the IFRSs and should be read in conjunction with the 2019 consolidated financial statements.

These interim condensed consolidated financial statements are unaudited, but has been reviewed by BDO Limited in accordance with Hong Kong Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity”, issued by the HKICPA.

3. CHANGES IN IFRSs

The Group has applied the same accounting policies in these interim condensed consolidated financial statements as in its 2019 annual consolidated financial statements, except that it has adopted the following amendments to IFRSs:

- Amendments to IFRS 16: COVID-19-Related Rent Concessions, which is not yet effective for the current accounting period but early adopted by the Group.

Amendments to IFRS 16: COVID-19-Related Rent Concessions

Effective 1 June 2020, IFRS 16 was amended to provide a practical expedient for lessees accounting for rent concessions that arise as a direct consequence of the COVID-19 pandemic and satisfy the following criteria:

- (a) The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- (b) The reduction in lease payments affects only payments originally due on or before 30 June 2021; and
- (c) There is no substantive change to other terms and conditions of the lease.

Rent concessions that satisfy these criteria may be accounted for in accordance with the practical expedient, which means the lessee does not need to assess whether the rent concession meets the definition of a lease modification. Lessees apply other requirements in IFRS 16 in accounting for the concession.

There were no rent concessions granted to the Group for the period ended 30 June 2020, therefore the early adoption of Amendments to IFRS 16 has no impact to the interim condensed consolidated financial statements.

4. IMPACT OF COVID-19 IN THE CURRENT REPORTING PERIOD

The outbreak of COVID-19 (the “**Outbreak**”) has developed rapidly in 2020 and significantly impacted entities and economic activities in varying scales globally. While there have been more immediate and pronounced disruptions in certain industries, its impact on the manufacturing and selling of urea and other chemical products in the PRC has been rather modest during the current reporting period. Nevertheless, as the Outbreak continues to evolve, it is challenging at this juncture to predict the full extent and duration of its impact to the business and the economy. Management has assessed the impact of COVID-19 across the Group, and up to the date of this announcement, has not identified any areas which had direct and material adverse impact caused by COVID-19 to the financial performance or position of the Group as at 30 June 2020.

5. USE OF JUDGEMENTS AND ESTIMATES

In preparing this interim condensed consolidated financial statements, the significant judgements made by the management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to 2019 annual financial statements.

6. REVENUE AND OTHER INCOME

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold by the Group, after deducting relevant taxes. In the following table, revenue is disaggregated by primary geographical market, major products and timing of revenue recognition.

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Revenue		
Primary geographical market		
– PRC	996,087	1,117,147
	996,087	1,117,147
Major products		
– Sales of urea	852,221	989,371
– Sales of methanol	46,931	68,717
– Sales of liquid ammonia	28,608	26,891
– Sales of carbon dioxide	28,354	20,913
– Sales of LNG	8,342	9,869
– Sales of compound fertiliser	15,560	1,386
– Sales of vehicle urea solution	16,071	–
	996,087	1,117,147
Timing of revenue recognition		
– At a point in time	996,087	1,117,147
	996,087	1,117,147
Other income is presented as follows:		
Government grants	1,627	3,927
Bank interest income	578	1,020
Other interest income	–	353
Rental income	348	–
Gain on investment recognised at fair value through profit or loss	1,816	–
Others	144	280
	4,513	5,580

The following table provides information about contract liabilities from contracts with customers.

	30 June 2020	31 December 2019
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Contract liabilities	<u>32,803</u>	<u>44,654</u>

Contract liabilities mainly relate to the advance consideration received from customers. During the six months ended 30 June 2020, RMB44,654,000 (year ended 31 December 2019: RMB30,450,000) of the contract liabilities has been recognised as revenue from performance obligation satisfied during the period when the goods were sold.

7. OTHER GAINS OR LOSSES, NET

Other gains or losses, net has been arrived at:

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Foreign exchange losses	<u>(2,491)</u>	<u>(1,796)</u>

8. SEGMENT INFORMATION

Operating segment information

The Group has identified its operating segments and prepared segment information based on the regular internal financial information reported to the Group's executive directors for their decisions about resources allocation to the Group's business components and review of these components' performance. There is only one business component in the internal reporting to the executive directors, which is manufacturing and selling urea. The Group's assets and capital expenditure are principally attributable to this business component.

9. FINANCE COSTS

	Six months ended 30 June	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Interest expense in relation to:		
Bank and other loans wholly repayable within five years	8,971	20,131
Loan from a shareholder	–	826
Lease liabilities	1,016	977
	9,987	21,934
Less: Amount capitalised (<i>note</i>)	(516)	(2,050)
	9,471	19,884

Note:

Borrowing costs of RMB516,000 (six months ended 30 June 2019: RMB2,050,000) capitalised during the period arose on the general borrowing pool and are calculated by applying a capitalisation rate of 2.7% (six months ended 30 June 2019: 3%) to expenditure on qualifying assets.

10. PROFIT BEFORE INCOME TAX

Profit before income tax is arrived at after charging:

	Six months ended 30 June	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Auditors' remuneration	315	315
Cost of inventories sold recognised as expense	874,543	922,412
Depreciation of property, plant and equipment	79,634	75,142
Depreciation of right-of-use assets	1,364	1,364
Depreciation of investment property	329	132
Employee benefit expenses (including directors' remuneration)		
– Wages and salaries	36,879	35,761
– Discretionary bonuses	10,120	10,580
– Retirement benefit scheme contributions	3,375	4,423
– Share-based payment expenses	–	88
	50,374	50,852

11. INCOME TAX EXPENSES

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current tax – PRC		
Current tax	20,827	30,621
Withholding tax on dividends	3,800	3,500
Deferred tax		
Credited for the period	(1,886)	(108)
	<u>22,741</u>	<u>34,013</u>

The Group is subject to income tax on an entity basis on profits arising in or derived from the tax jurisdictions in which members of the Group are domiciled and operate. Pursuant to the rules and regulations of the Cayman Islands, Samoa and British Virgin Islands, the Group's subsidiaries incorporated in the Cayman Islands, Samoa and British Virgin Islands are not subject to any income tax. The Group's subsidiaries incorporated in Hong Kong are not liable for income tax as they did not have any assessable income arising in Hong Kong during the six months ended 30 June 2020 and 2019.

The provision for Mainland China current income tax is based on the statutory rate of 25% of the assessable profit of the PRC subsidiaries of the Group as determined in accordance with the PRC Corporation Income Tax Law which was approved and became effective on 1 January 2008 (the “**New Corporate Income Tax Law**”).

12. DIVIDENDS AND DISTRIBUTION

During the six months ended 30 June 2020, a final dividend of HK\$6 cents per ordinary share, absorbing a total amount of approximately HK\$37,300,000 in respect of the year ended 31 December 2019 was approved at the Annual General Meeting held on 29 May 2020. Such final dividend was declared and paid to the shareholders of the Company. The Directors do not recommend the payment of an interim dividend in respect of the six months ended 30 June 2020. (six months ended 30 June 2019: nil).

13. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the following:

	Six months ended 30 June	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Earnings for the purposes of basic earnings per share	54,895	112,734
Effect of dilutive potential ordinary shares:		
Remuneration shares	—	—
Earnings for the purposes of diluted earnings per share	<u>54,895</u>	<u>112,734</u>
Weighted average number of ordinary shares for the purposes of basic earnings per share	620,944,000	620,472,000
Effect of dilutive potential ordinary shares:		
Remuneration shares	—	468,382
Weighted average number of ordinary shares for the purposes of diluted earnings per share	<u>620,944,000</u>	<u>620,940,382</u>

In calculating the diluted earnings per share attributable to the owners of the Company for the six months ended 30 June 2019, there was an adding back of bonus element of remuneration shares. Therefore, the diluted earnings per share attributable to the owners of the Company for the six months ended 30 June 2019 is based on the earnings attributable to the owners of the Company of approximately RMB112,734,000 and on the weighted average number of 620,940,382 ordinary shares during the six months ended 30 June 2019.

14. PROPERTY, PLANT AND EQUIPMENT

No impairment losses were recognised in respect of property, plant and equipment for both periods. During the six months ended 30 June 2020, additions to property, plant and equipment approximately amounted to RMB48,010,000 (six months ended 30 June 2019: RMB22,947,000) and building with carrying amount of RMB9,202,000 (six months ended 30 June 2019: nil) was transferred to investment property.

15. INVENTORIES

	At	At
	30 June	31 December
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Audited)
Raw materials	34,631	71,183
Finished goods	4,609	6,615
Parts and spares	4,165	3,105
	<u>43,405</u>	<u>80,903</u>

16. TRADE RECEIVABLES

	At 30 June 2020 <i>RMB'000</i> (Unaudited)	At 31 December 2019 <i>RMB'000</i> (Audited)
Trade debtors	<u>14,629</u>	<u>–</u>

Included in trade receivables are trade debtors (net of impairment losses) with the following ageing analysis, based on invoice dates, as of the end of reporting period. The balances with trade debtors were neither past due nor impaired as at 30 June 2020.

	At 30 June 2020 <i>RMB'000</i> (Unaudited)	At 31 December 2019 <i>RMB'000</i> (Audited)
Within 3 months	<u>14,629</u>	<u>–</u>

17. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	At 30 June 2020 <i>RMB'000</i> (Unaudited)	At 31 December 2019 <i>RMB'000</i> (Audited)
Other tax recoverable	41,050	54,366
Prepayments for utilities	12,000	12,000
Prepayments for equipment	2,413	1,556
Prepayments to coal suppliers	4,978	1,093
Prepayments to employees	858	920
Other prepayments, deposits and other receivables	<u>5,084</u>	<u>3,904</u>
	66,383	73,839
Less: non-current portion	<u>(2,413)</u>	<u>(1,556)</u>
	<u>63,970</u>	<u>72,283</u>

18. TRADE PAYABLES

Trade payables are non-interest bearing and normally have a credit period of 0 to 90 days.

An ageing analysis of the Group's trade payables, based on the invoice dates is as follows:

	At 30 June 2020 <i>RMB'000</i> (Unaudited)	At 31 December 2019 <i>RMB'000</i> (Audited)
0 to 90 days	39,014	42,601
91 to 180 days	2,833	4,932
181 to 365 days	16,490	18,425
Over 365 days	16,183	11,404
	<u>74,520</u>	<u>77,362</u>

19. OTHER PAYABLES AND ACCRUALS

	At 30 June 2020 <i>RMB'000</i> (Unaudited)	At 31 December 2019 <i>RMB'000</i> (Audited)
Accruals	11,084	16,544
Other payables (<i>note</i>)	30,828	48,619
	<u>41,912</u>	<u>65,163</u>

Note:

Other payables mainly represented payables with construction and manufacturing equipment companies for the purpose of plant improvements, equipment replacements and repairs and maintenance.

20. BANK AND OTHER BORROWINGS

	At 30 June 2020 RMB'000 (Unaudited)	At 31 December 2019 RMB'000 (Audited)
Secured		
– Short-term bank loans (<i>Note (i)</i>)	293,000	308,400
– Short-term other loan (<i>Note (i)</i>)	–	49,658
– Current portion of long-term bank loan (<i>Note (i)</i>)	–	24,000
Unsecured		
– Short-term bank loans	<u>80,000</u>	<u>60,000</u>
	<u>373,000</u>	<u>442,058</u>

Notes:

- (i) As at 30 June 2020 and 31 December 2019, the Group's secured short-term bank loans, short-term other loan and long-term bank loan were secured by certain of the Group's property, plant and equipment and leasehold land. Short-term secured other loan as at 31 December 2019 was granted from a finance leasing company in the PRC and was fully repaid on 19 February 2020.
- (ii) All of the banking facilities are subject to the fulfilment of covenants relating to certain of the financial position ratios of an indirect wholly-owned subsidiary of the Company, Hebei Dongguang Chemical Co., Ltd. (“**Hebei Dongguang**”), as are commonly found in lending arrangements with financial institutions. If Hebei Dongguang was to breach the covenants, the drawn down facilities would become repayable on demand. No breach of covenants is noted as at 30 June 2020 and 31 December 2019.

21. SHARE CAPITAL

	Number of shares '000	Amount US\$	Amount RMB'000
Authorised share capital:			
As at 1 January 2019, 31 December 2019 and 30 June 2020			
Ordinary shares at US\$0.0001 each	<u>500,000,000</u>	<u>50,000,000</u>	<u>340,449</u>
Issued share capital:			
As at 1 January 2019	620,472	62,047	392
Issue of remuneration shares	<u>472</u>	<u>47</u>	<u>–</u>
As at 31 December 2019 and 30 June 2020	<u>620,944</u>	<u>62,094</u>	<u>392</u>

22. RELATED PARTY TRANSACTIONS AND BALANCES

(a) Amount due to a non-controlling shareholder of a subsidiary is unsecured, non-interest bearing and repayable on demand.

(b) Compensation of key management personnel of the Group

	Six months ended 30 June	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Short-term employee benefits	734	598
Retirement benefit scheme contributions	27	100
Share-based payment expenses	–	88
	<u>761</u>	<u>786</u>
Total compensation paid to key management personnel	<u>761</u>	<u>786</u>

23. CAPITAL COMMITMENTS

	At	At
	30 June	31 December
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Audited)
Commitments for the acquisition of property, plant and equipment: – contracted for but not provided	<u>52,307</u>	<u>22,989</u>

24. CONTINGENT LIABILITIES

As at 30 June 2020, neither the Group nor the Company had any significant contingent liabilities (31 December 2019: nil).

25. EVENTS AFTER THE END OF THE REPORTING PERIOD

Except as disclosed elsewhere in the interim condensed consolidated financial statements, no significant event took place subsequent to 30 June 2020.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

In the first half of 2020, affected by the outbreak of the Coronavirus Disease 2019 (“COVID-19”), the urea industry and global economy experienced turbulence. After the Spring Festival, in order to ensure the smooth progress of spring time agricultural production, the PRC government encouraged local fertilizer enterprises to increase their operating rate to meet the agricultural demand, and therefore the market demand had been gradually recovered during the Reporting Period. However, the market prices of urea and methanol products still fluctuated and declined compared to last year. Despite the global market and economic uncertainties, the Group still achieved a considerable profit margin and high operating status in such challenging period of time.

During the Reporting Period, we recorded a decrease in profit by approximately RMB56.5 million, or 50.1%, from RMB112.7 million for the six months ended 30 June 2019 to approximately RMB56.2 million for the Reporting Period, mainly due to the decrease of gross profit and gross profit margin of the Group as a whole. Our revenue decreased by approximately RMB121.0 million, or 10.8%, from approximately RMB1,117.1 million for the six months ended 30 June 2019 to approximately RMB996.1 million for the Reporting Period, mainly due to the decrease in the average selling price of urea. The average selling price of our urea products was approximately RMB1,513 per tonne during the Reporting Period, representing a decrease of approximately 12.1% from RMB1,721 per tonne during the corresponding period in 2019. As a result of the decrease in our revenue and the higher percentage decrease of revenue than the percentage decrease of cost of sales during the Reporting Period, our gross profit and gross profit margin also decreased during the Reporting Period.

In addition, we are pleased to report that the Group’s newly developed vehicles urea solution production have begun to contribute profits to the Group since its full-scale production in the first half of 2020. The current production facilities have an annualized production capacity of 300,000 tonnes of vehicles urea products and the Group has also registered the product’s trade mark named as “Dongzhiqing” “東之清”.

The vehicles urea solution can reduce the nitrogen oxides in the exhaust gas of diesel engine into nitrogen and water, which can effectively reduce the air pollution emissions. The “Dongzhiqing” vehicles urea solution is not only suitable for all kinds of diesel vehicles equipped with SCR system, but also can be applied to non-road mobile machinery and wheeled vehicles for special engineering operations. The production facilities adopt advanced automatic continuous production and filling device and whole process DCS control to realize precise control of product quality; it is equipped with a complete set of quality detection equipment, perfect quality management system and excellent chemical production and management personnel team to ensure the quality of products is excellent, stable and reliable.

OPERATING AND FINANCIAL REVIEW

Revenue by Products

	Six months ended 30 June 2020 RMB'000	Six months ended 30 June 2019 RMB'000	% Change + / (-)
Urea	852,221	989,371	-13.9%
Methanol	46,931	68,717	-31.7%
Other products	96,935	59,059	+64.1%
Total	996,087	1,117,147	-10.6%

Urea

Revenue from urea decreased by approximately RMB137.2 million, or 13.9%, from approximately RMB989.4 million for the six months ended 30 June 2019 to approximately RMB852.2 million for the Reporting Period, as the average selling price of our urea products decreased by approximately RMB208 per tonne, or 12.1%, from approximately RMB1,721 per tonne for the six months ended 30 June 2019 to approximately RMB1,513 per tonne for the Reporting Period, mainly due to the changing of market demand and supply affected by the market downturn during the Reporting Period. The sales volume of urea slightly decreased by approximately 2% for the Reporting Period as compared to the six months ended 30 June 2019.

Methanol

Revenue from methanol decreased by approximately RMB21.8 million, or 31.7%, from approximately RMB68.7 million for the six months ended 30 June 2019 to approximately RMB46.9 million for the Reporting Period, as the average selling price of our methanol products decreased by approximately RMB412 per tonne, or 25.5%, from approximately RMB1,614 per tonne for the six months ended 30 June 2019 to approximately RMB1,202 per tonne for the Reporting Period, mainly due to the market downturn and fluctuation in energy prices during the Reporting Period. The sales volume of methanol slightly decreased by approximately 8% for the Reporting Period as compared to the six months ended 30 June 2019.

Other products

Other products include carbon dioxide, liquid ammonia, compound fertiliser, vehicle urea solution and LNG. Revenue from other products increased by approximately RMB37.9 million, or 64.1%, from approximately RMB59.0 million for the six months ended 30 June 2019 to approximately RMB96.9 million for the Reporting Period mainly due to the increase in revenue of our carbon dioxide, compound fertilizer and vehicle urea solution products during the Reporting Period. The increase in revenue of carbon dioxide was mainly due to the increase of the average selling price of our carbon dioxide products for the Reporting Period, the increase in revenue of compound fertilizer was mainly due to the increase of sales volume for the Reporting Period, and the increase in revenue of vehicle urea solution was due to its full-scale production in the Reporting Period.

Gross Profit and Gross Profit Margin

	Six months ended 30 June 2020		Six months ended 30 June 2019		Change	
	Gross Profit/ (Loss) RMB'000	Margin %	Gross Profit/ (Loss) RMB'000	Margin %	RMB'000	%
Urea	102,891	12.1	177,120	17.9	(74,229)	(41.9)
Methanol	(16,655)	(35.5)	(7,459)	(10.9)	(9,196)	123.3
Other products	<u>35,308</u>	<u>36.4</u>	<u>25,074</u>	<u>42.4</u>	<u>10,234</u>	<u>40.8</u>
Total	<u>121,544</u>	12.2	<u>194,735</u>	17.4	<u>(73,191)</u>	(37.6)

Our gross profit decreased by approximately RMB73.2 million, or 37.6%, from approximately RMB194.7 million for the six months ended 30 June 2019, to approximately RMB121.5 million for the Reporting Period, primarily due to the decrease in our revenue resulting from the decrease in the average selling price of our urea and methanol products while our cost of sales decreased mainly due to the decrease in raw materials costs during the Reporting Period. As a result of the decrease in our revenue and the higher percentage decrease of revenue than the percentage decrease of cost of sales during the Reporting Period, our gross profit margin decreased from approximately 17.4% for the six months ended 30 June 2019 to approximately 12.2% for the Reporting Period.

Other income

Other income decreased by approximately RMB1.1 million, or 19.1%, from approximately RMB5.6 million for the six months ended 30 June 2019, to approximately RMB4.5 million for the Reporting Period, primarily due to the decrease in our government grant income recognised in the Reporting Period.

Other gains and losses, net

Other losses (net) increased by approximately RMB0.7 million, or 38.7%, from approximately RMB1.8 million for the six months ended 30 June 2019, to approximately RMB2.5 million for the Reporting Period, primarily due to foreign exchange loss of RMB to HK\$.

Administrative expenses

Administrative expenses increased by approximately RMB3.1 million, or 10.1%, from approximately RMB30.6 million for the six months ended 30 June 2019 to approximately RMB33.7 million for the Reporting Period, primarily due to the increase in staff salaries and compensation, government donation and provision for other receivables, and the increase was partially offset by the decrease in consultancy fee for the Reporting Period.

Distribution expenses

There was no material fluctuation for distribution expenses between the Reporting Period and the six months ended 30 June 2019.

Finance costs

Finance costs decreased by approximately RMB10.4 million, or 52.4%, from approximately RMB19.9 million for the six months ended 30 June 2019 to approximately RMB9.5 million for the Reporting Period, primarily due to general decrease in the level of borrowings.

Taxation

Income tax expenses decreased by approximately RMB11.3 million, or 33.2%, from approximately RMB34.0 million for the six months ended 30 June 2019 to approximately RMB22.7 million for the Reporting Period primarily due to the decrease in profit before income tax.

Profit for the period

Profit for the period decreased by approximately RMB56.5 million or 50.1% from approximately RMB112.7 million for the six months ended 30 June 2019 to approximately RMB56.2 million for the Reporting Period. This was mainly due to the decrease in gross profit of approximately RMB73.2 million, decrease in other income of approximately RMB1.1 million, increase in administrative expenses of approximately RMB3.1 million and increase in other losses (net) of approximately RMB0.7 million during the Reporting Period. The decrease in profit for the Reporting Period was partially offset by decrease in finance costs of approximately RMB10.4 million and the decrease in income tax expenses of approximately RMB11.3 million.

CAPITAL STRUCTURE

As at 30 June 2020, the Group had net assets of approximately RMB1,169.0 million (as at 31 December 2019: approximately RMB1,145.4 million), comprising of non-current assets of approximately RMB1,201.5 million (as at 31 December 2019: approximately RMB1,234.4 million), and current assets of approximately RMB541.1 million (as at 31 December 2019: approximately RMB590.2 million), which primarily consist of cash and bank balances amounted to approximately RMB419.1 million (as at 31 December 2019: approximately RMB431.8 million). Moreover, inventories amounted to approximately RMB43.4 million (as at 31 December 2019: approximately RMB80.9 million) and prepayments, deposits and other receivables amounted to approximately RMB64.0 million (as at 31 December 2019: approximately RMB72.3 million) are also major current assets. The Group recorded a net current asset position of approximately RMB4.1 million as at 30 June 2020 (as at 31 December 2019: net current liabilities of approximately RMB50.0 million). Major current liabilities are trade payables amounted to approximately RMB74.5 million (as at 31 December 2019: approximately RMB77.4 million), other payables and accruals amounted to approximately RMB41.9 million (as at 31 December 2019: approximately RMB65.2 million), contract liabilities amounted to approximately RMB32.8 million (as at 31 December 2019: RMB44.7 million) and interest-bearing bank and other borrowings amounted to RMB373.0 million (as at 31 December 2019: approximately RMB442.1 million).

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2020, the Group had cash and bank balances of approximately RMB419.1 million (as at 31 December 2019: approximately RMB431.8 million) and had total interest-bearing bank borrowings of approximately RMB373.0 million (as at 31 December 2019: approximately RMB442.1 million). The Group's interest-bearing bank borrowings bear interests ranging from 3.70% to 5.66% (as at 31 December 2019: 4.39% to 5.53%) per annum.

As at 30 June 2020, total current bank and other borrowings of the Group repayable within one year were approximately RMB373.0 million (as at 31 December 2019: approximately RMB442.1 million).

As at 30 June 2020, the gearing ratio for the Group was 32% (as at 31 December 2019: 39%), based on bank and other borrowings of approximately RMB373.0 million (as at 31 December 2019: approximately RMB442.1 million) and equity attributable to owners of the Company of approximately RMB1,165.8 million (as at 31 December 2019: approximately RMB1,143.4 million). The Group would serve its debts primarily by cash flow generated from its operation, seeking renewal of the outstanding bank borrowings and new banking facilities and exploring the availability of alternative source of financing. The management is confident that the Group has adequate financial resources to meet its future debt repayment and support its working capital requirement and future expansion.

PROSPECTS

Looking ahead, the impact of the global spread of COVID-19 has not been dispersed, but the domestic situation in the PRC tends to be stable. With the strong policy support of returning to work and production, it is believed that the overall urea market will change from turbulence to balance, and the urea industry will gradually tend to a rational and orderly development direction. In addition, the Group believes that the prospects of vehicles urea solution is promising. It can help to reduce air pollution and also benefit the Group in expanding our customer base, enhancing gross profit margin of products and increasing profitability, which is in line with the product differentiation strategy of the Group. In order to achieve greater economic and social benefits, the Group will continue to promote its growth strategy, including effectively increasing production capacity, actively improving production quality and efficiency, expanding the value chain to urea related products, consolidating and strengthening strategic cooperative relationship with major customers, diversifying customer sources and identifying strategic investment opportunities.

The Group would like to take this opportunity to express our heartfelt thanks to all shareholders, the management, all employees, all customers and friends from all walks of life who care and support the development of the Group. In the past six months, all the employees have worked very hard to achieve the development of business and the continuous improvement of management under the complex market situation. The Group will adhere to the development concept of "developing enterprises, creating value, enriching employees and contributing to the society", and at the same time, it is committed to creating greater value for the society. Looking forward to the future, although facing the uncertainty of the market, we firmly believe that the Group has strong shareholder support, relying on solid management foundation and new green technology, the Group will be able to meet new challenges, adapt to the adjustment and change of the market, create more value for shareholders and achieve greater development of the Group.

FOREIGN CURRENCY EXPOSURE

The Group is exposed to foreign exchange risk during the Reporting Period arising from various currency exposures mainly to the extent of its borrowings in currencies denominated in Hong Kong dollars.

The Group does not have a formal foreign currency hedging policy or conducts hedging exercise to reduce its foreign currency exposure. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should it be necessary.

CAPITAL COMMITMENTS

As at 30 June 2020, capital commitment of the Group which had been contracted for but not provided in the financial statements was approximately RMB52.3 million (as at 31 December 2019: RMB23.0 million).

CHARGE ON ASSETS

As at 30 June 2020 and 31 December 2019, the Group's secured short-term bank loans, short-term other loan and long-term bank loans were secured by certain of the Group's property, plant and equipment, leasehold land, inventories and bank deposits. Short-term secured other loan as at 31 December 2019 was granted from a finance leasing company in the PRC and was fully repaid during the Reporting Period.

CONTINGENT LIABILITIES

As at 30 June 2020, the Group did not have any material contingent liabilities (as at 31 December 2019: Nil).

EMPLOYEES AND EMOLUMENT POLICY

As at 30 June 2020, the Group employed a total of 1,269 employees (as at 31 December 2019: 1,295 employees). The Group's emolument policy is formulated based on industry practices and performance of individual employees. During the Reporting Period, the total staff costs (including directors' emoluments) amounted to approximately RMB50.4 million (six months ended 30 June 2019: RMB50.9 million). The Company has also adopted a share option scheme for the purpose of providing incentives and rewards to eligible participants, including the employees of the Group, for their contribution to the Group.

EVENTS AFTER THE REPORTING PERIOD

Saved as disclosed in this announcement, there is no event that will have material impact on the Group from the end of the Reporting Period to the date of this announcement.

MATERIAL ACQUISITIONS AND DISPOSAL OF SUBSIDIARIES AND ASSOCIATED COMPANIES

There was no material acquisition or disposal of subsidiaries or associated companies of the Company during the Reporting Period.

SIGNIFICANT INVESTMENTS

There was no significant investment held by the Company during the Reporting Period.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the Reporting Period, neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

INTERIM DIVIDEND

The Board has decided not to declare an interim dividend for the Reporting Period.

AUDIT COMMITTEE AND REVIEW OF INTERIM RESULTS

The audit committee of the Company (the “**Audit Committee**”) consists of the independent non-executive Directors, namely Mr. Ng Sai Leung, Mr. Liu Jincheng and Ms. Lin Xiuxiang. Mr. Ng Sai Leung is the Chairman of the Audit Committee.

The Audit Committee has reviewed with the management of the Group the accounting principles and standards adopted by the Group, and discussed auditing, internal control and financial reporting matters including the review of the Company’s interim results for the Reporting Period.

The interim results of the Group for the Reporting Period have been reviewed by the Company’s auditor, BDO Limited, in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants.

CORPORATE GOVERNANCE

The Board has adopted the code provisions of the Corporate Governance Code (the “**CG Code**”) set out in Appendix 14 to the Listing Rules. The Board has reviewed the Company’s corporate governance practices and is satisfied that the Company has complied with the code provisions set out in the CG Code throughout the Reporting Period.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding Directors’ securities transactions on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as set out in Appendix 10 to the Listing Rules. After specific enquiry made by the Company, all of the Directors confirmed that they have complied with the required standard set out in the Model Code and the code of conduct of the Company governing Directors’ securities transactions throughout the Reporting Period.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This interim results announcement is published on the website of the Stock Exchange at www.hkex.com.hk and on the Company's website at www.dg-chemical.com. The interim report for the Reporting Period will be despatched to the shareholders of the Company and will be published on the aforesaid websites of the Stock Exchange and the Company in due course in accordance with the Listing Rules.

APPRECIATION

On behalf of the Board, I would like to thank the management and all staff for their hard work and dedication, as well as the shareholders of the Company and customers of the Group for their support.

By order of the Board
Dongguang Chemical Limited
東光化工有限公司
Wang Zhihe
Chairman

The PRC, 28 August 2020

As at the date of this announcement, the executive directors of the Company are Mr. Wang Zhihe, Mr. Sun Zushan and Mr. Xu Xijiang; the non-executive director of the Company is Ms. Chen Jimin; and the independent non-executive directors of the Company are Ms. Lin Xiuxiang, Mr. Liu Jincheng and Mr. Ng Sai Leung.