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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 2021

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 2021 (the "**Reporting Period**"). The relevant financial figures for the corresponding period in 2020 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 2021*

| | *Notes* | **Six months ended 30 June 2021** *RMB'000* **(Unaudited)** | 2020 *RMB'000* (Unaudited) |
|---|---|---|---|
| **Revenue** | *6* | **1,295,407** | 996,087 |
| Cost of sales | | **(1,052,516)** | (874,543) |
| **Gross profit** | | **242,891** | 121,544 |
| Other income | *6* | **3,954** | 2,697 |
| Other gains or losses, net | *7* | **(713)** | (675) |
| Administrative expenses | | **(39,159)** | (33,663) |
| Distribution expenses | | **(1,671)** | (1,482) |
| Finance costs | *9* | **(9,260)** | (9,471) |
| **Profit before income tax** | *10* | **196,042** | 78,950 |
| Income tax expenses | *11* | **(53,704)** | (22,741) |
| Profit for the period | | **142,338** | 56,209 |
| **Other comprehensive income that may be reclassified to profit or loss in subsequent periods** | | | |
| Exchange differences on translation of foreign operation | | **(2,097)** | 1,040 |
| **Total comprehensive income for the period attributable to owners of the Company** | | **140,241** | 57,249 |
| **Profit attributable to:** | | | |
| – Owners of the Company | | **138,459** | 54,895 |
| – Non-controlling interest | | **3,879** | 1,314 |
| | | **142,338** | 56,209 |
| **Total comprehensive income attributable to:** | | | |
| – Owners of the Company | | **136,362** | 55,935 |
| – Non-controlling interest | | **3,879** | 1,314 |
| | | **140,241** | 57,249 |
| | | ***RMB cents*** | *RMB cents* |
| **Earnings per share for profit attributable to the owners of the Company** | | | |
| – Basic | *13* | **22.3** | 8.8 |
| – Diluted | *13* | **22.3** | 8.8 |

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*As at 30 June 2021*

| | Notes | At 30 June 2021 RMB'000 (Unaudited) | At 31 December 2020 RMB'000 (Audited) |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | *14* | **1,047,858** | 1,110,279 |
| Investment property | | **14,403** | 14,828 |
| Right-of-use assets | | **115,945** | 117,430 |
| Unlisted equity investment at fair value through other comprehensive income | | **40** | 40 |
| Prepayments for equipment and land lease | *17* | **11,021** | 8,405 |
| **Total non-current assets** | | **1,189,267** | 1,250,982 |
| **Current assets** | | | |
| Inventories | *15* | **52,920** | 82,417 |
| Trade receivables | *16* | **23,876** | 8,491 |
| Notes receivables | | **900** | – |
| Prepayments, deposits and other receivables | *17* | **118,118** | 50,058 |
| Cash and bank balances | | **717,741** | 367,104 |
| **Total current assets** | | **913,555** | 508,070 |
| **Current liabilities** | | | |
| Trade payables | *18* | **82,519** | 62,923 |
| Deferred revenue | | **1,230** | 2,444 |
| Contract liabilities | *6* | **59,331** | 64,814 |
| Other payables and accruals | *19* | **62,816** | 58,044 |
| Financial liabilities at fair value through profit or loss | | **475** | – |
| Lease liabilities | | **247** | 245 |
| Short-term bank and other borrowings | *20* | **399,103** | 281,000 |
| Income tax payable | | **28,479** | 10,088 |
| Amount due to a non-controlling shareholder of a subsidiary | *22(a)* | **40** | 40 |
| **Total current liabilities** | | **634,240** | 479,598 |

| | Notes | At **30 June** **2021** ***RMB'000*** **(Unaudited)** | At 31 December 2020 *RMB'000* (Audited) |
|---|---|---|---|
| **Net current assets** | | **279,315** | 28,472 |
| **Non-current liabilities** | | | |
| Long term bank and other borrowings | *20* | **–** | 10,000 |
| Lease liabilities | | **29,138** | 28,154 |
| Deferred revenue | | **4,408** | 4,820 |
| Deferred tax liabilities | | **90** | 2,404 |
| **Total non-current liabilities** | | **33,636** | 45,378 |
| **Net assets** | | **1,434,946** | 1,234,076 |
| **Capital and reserves attributable to owners of the Company** | | | |
| Share capital | *21* | **392** | 392 |
| Reserves | | **1,341,128** | 1,230,515 |
| Equity attributable to owners of the Company | | **1,341,520** | 1,230,907 |
| **Non-controlling interests** | | **93,426** | 3,169 |
| **Total equity** | | **1,434,946** | 1,234,076 |

## 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 27 August 2021.

These interim condensed consolidated financial statements have been prepared with the same accounting policies adopted in the 2020 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 2021. 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 2020 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 2020 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 IASB has issued a number of new or amended IFRSs that are first effective for the current accounting period of the Group:

- Amendments to IAS 39, IFRS 4, IFRS 7, IFRS 9 and IFRS 16: Interest Rate Benchmark Reform – Phase 2

- Amendments to IFRS 16: COVID-19-Related Rent Concessions beyond 30 June 2021

The new or amended IFRSs that are effective from 1 January 2021 did not have any significant impact on the Group's accounting policies.

**Amendments to IAS 39, IFRS 4, IFRS 7, IFRS 9 and IFRS 16, Interest Rate Benchmark Reform – Phase 2**

The amendments address issues that might affect financial reporting when a company replaces the old interest rate benchmark with an alternative benchmark rate as a result of the interest rate benchmark reform (the "Reform"). The amendments complement those issued in November 2019 and relate to (a) changes to contractual cash flows in which an entity will not have to derecognise or adjust the carrying amount of financial instruments for changes required by the Reform, but will instead update the effective interest rate to reflect the change to the alternative benchmark rate; (b) hedge accounting in which an entity will not have to discontinue its hedge accounting solely because it makes changes required by the Reform, if the hedge meets other hedge accounting criteria; and (c) disclosures in which an entity will be required to disclose information about new risks arising from the Reform and how it manages the transition to alternative benchmark rates.

**Amendments to IFRS 16: COVID-19-Related Rent Concessions beyond 30 June 2021**

In March 2021, the IASB amended IFRS 16 Leases, extending the practical expedient in order to permit lessees to apply it to rent concessions for which reductions in lease payments affect payments originally due on or before 30 June 2022. This amendment is applicable for annual reporting periods beginning on or after 1 April 2021, with early application permitted, including in financial statements not authorised for issue at 9 April 2021.

The Group has early adopted this amendment for its annual reporting period beginning on 1 January 2021.

During the year ended 31 December 2020, the Group had elected to apply the practical expedient provided by the amendment to IFRS 16 issued in May 2020. In accordance with this practical expedient, the rent concessions received affecting payments originally due on or before 30 June 2021 were not accounted as lease modifications. The ineligible rent concessions from 1 July 2021 to 30 June 2022 now qualify for application of the practical expedient due to the amendment issued in April 2021.

The transitional requirements of the extension to the practical expedient require retrospective application, with the cumulative effect of initially applying the amendment recognised as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the beginning of the annual reporting period in which the entity first applies the amendment.

There is no impact on the condensed consolidated interim financial statement as no rent concessions has arisen during the current financial period.

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

The outbreak of COVID-19 (the "**Outbreak**") has developed rapidly since 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 Group's business and the PRC 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 2021.

## 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 2020 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** | |
|---|---|---|
| | **2021** | 2020 |
| | ***RMB'000*** | *RMB'000* |
| | **(Unaudited)** | (Unaudited) |
| **Revenue** | | |
| Primary geographical market | | |
| – PRC | **1,295,407** | 996,087 |
| Major products | | |
| – Sales of urea | **1,050,468** | 852,221 |
| – Sales of methanol | **71,724** | 46,931 |
| – Sales of liquid ammonia | **17,459** | 28,608 |
| – Sales of carbon dioxide | **19,771** | 28,354 |
| – Sales of LNG | **11,325** | 8,342 |
| – Sales of compound fertiliser | **14,545** | 15,560 |
| – Sales of vehicle urea solution | **110,115** | 16,071 |
| | **1,295,407** | 996,087 |
| Timing of revenue recognition | | |
| – At a point in time | **1,295,407** | 996,087 |
| **Other income is presented as follows:** | | |
| Government grants | **1,667** | 1,627 |
| Bank interest income | **1,186** | 578 |
| Rental income | **391** | 348 |
| Others | **710** | 144 |
| | **3,954** | 2,697 |

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

| | **30 June 2021** | 31 December 2020 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| | **(Unaudited)** | (Audited) |
| Contract liabilities | **59,331** | 64,814 |

Contract liabilities mainly relate to the advance consideration received from customers. During the six months ended 30 June 2021, RMB64,814,000 (year ended 31 December 2020: RMB44,654,000) 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** | |
|---|---|---|
| | **2021** | 2020 |
| | ***RMB'000*** | *RMB'000* |
| | **(Unaudited)** | (Unaudited) |
| (Loss)/gain on investment recognised at fair value through profit or loss | **(705)** | 1,816 |
| Fair value loss on investment recognised at fair value through profit or loss | **(1,741)** | - |
| Foreign exchange gain/(loss) | **1,733** | (2,491) |
| | **(713)** | (675) |

## 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 and by-products. The Group's assets and capital expenditure are principally attributable to this business component.

## 9. FINANCE COSTS

| | Six months ended 30 June | |
|---|---|---|
| | **2021** | 2020 |
| | ***RMB'000*** | *RMB'000* |
| | **(Unaudited)** | (Unaudited) |
| **Interest expense in relation to:** | | |
| Bank and other loans wholly repayable within five years | **9,024** | 8,971 |
| Lease liabilities | **986** | 1,016 |
| | **10,010** | 9,987 |
| Less: Amount capitalised *(Note)* | **(750)** | (516) |
| | **9,260** | 9,471 |

*Note:*

Borrowing costs of RMB750,000 (six months ended 30 June 2020: RMB516,000) capitalised during the period arose on the general borrowing pool and are calculated by applying a capitalisation rate of 4.5% (six months ended 30 June 2020: 2.7%) to expenditure on qualifying assets.

## 10. PROFIT BEFORE INCOME TAX

Profit before income tax is arrived at after charging:

| | Six months ended 30 June | |
|---|---|---|
| | **2021** | 2020 |
| | ***RMB'000*** | *RMB'000* |
| | **(Unaudited)** | (Unaudited) |
| Auditors' remuneration | **340** | 315 |
| Cost of inventories sold recognised as expense | **1,052,516** | 874,543 |
| Depreciation of property, plant and equipment | **89,673** | 79,634 |
| Depreciation of right-of-use assets | **1,485** | 1,364 |
| Depreciation of investment property | **424** | 329 |
| Impairment of other receivables *(Note)* | **17,120** | – |
| Employee benefit expenses (including directors' remuneration) | | |
| – Wages and salaries | **39,897** | 36,879 |
| – Discretionary bonuses | **10,734** | 10,120 |
| – Retirement benefit scheme contributions | **3,422** | 3,375 |
| | **54,053** | 50,374 |

*Note:*

Impairment of other receivables represented the impairment loss recognised for a portion of "other tax recoverable" which included in "prepayments, deposits and other receivables" as at 30 June 2021, because the recoverability of such amount was uncertain.

## 11. INCOME TAX EXPENSES

| | Six months ended 30 June | |
|---|---|---|
| | **2021** | 2020 |
| | ***RMB'000*** | *RMB'000* |
| | **(Unaudited)** | (Unaudited) |
| **Current tax – PRC** | | |
| Current tax | **52,518** | 20,827 |
| Withholding tax on dividends | **3,500** | 3,800 |
| **Deferred tax** | | |
| Credited for the period | **(2,314)** | (1,886) |
| | **53,704** | 22,741 |

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 2021 and 2020.

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 2021, a final dividend of HK$5 cents per ordinary share, absorbing a total amount of approximately HK$31,047,000 in respect of the year ended 31 December 2020, was approved at the Annual General Meeting held on 28 May 2021. 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 2021 (six months ended 30 June 2020: 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 | |
|---|---|---|
| | **2021** | 2020 |
| | ***RMB'000*** | *RMB'000* |
| | **(Unaudited)** | (Unaudited) |
| Earnings for the purposes of basic and diluted earnings per share | **138,459** | 54,895 |
| Weighted average number of ordinary shares for the purposes of basic and diluted earnings per share | **620,944,000** | 620,944,000 |

No diluted earnings per share is presented as there was no potential ordinary shares in issue during the six months ended 30 June 2021 and 2020.

## 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 2021, additions to property, plant and equipment approximately amounted to RMB27,252,000 (six months ended 30 June 2020: RMB48,010,000). Building with carrying amount of nil (six months ended 30 June 2020: RMB9,202,000) was transferred to investment property.

## 15. INVENTORIES

| | At | At |
|---|---|---|
| | **30 June** | 31 December |
| | **2021** | 2020 |
| | ***RMB'000*** | *RMB'000* |
| | **(Unaudited)** | (Audited) |
| Raw materials | **41,720** | 70,624 |
| Finished goods | **8,224** | 8,185 |
| Parts and spares | **2,976** | 3,608 |
| | **52,920** | 82,417 |

## 16. TRADE RECEIVABLES

| | At 30 June 2021 *RMB'000* (Unaudited) | At 31 December 2020 *RMB'000* (Audited) |
|---|---|---|
| Trade debtors | **23,876** | 8,491 |

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 2021.

| | At 30 June 2021 *RMB'000* (Unaudited) | At 31 December 2020 *RMB'000* (Audited) |
|---|---|---|
| Within 3 months | **23,876** | 8,491 |

## 17. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

| | At 30 June 2021 *RMB'000* (Unaudited) | At 31 December 2020 *RMB'000* (Audited) |
|---|---|---|
| Other tax recoverable | **35,335** | 32,308 |
| Prepayments for utilities | **8,942** | 12,000 |
| Prepayments for equipment | **3,226** | 610 |
| Prepayments for acquisition of land leases | **7,795** | 7,795 |
| Prepayments to coal suppliers | **44,605** | 1,212 |
| Prepayments to employees | **1,069** | 965 |
| Deposit of urea future contracts | **38,412** | – |
| Other prepayments, deposits and other receivables | **6,875** | 5,265 |
| | **146,259** | 60,155 |
| Less: impairment of other receivables | **(17,120)** | (1,692) |
| | **129,139** | 58,463 |

Represented by:

| | At 30 June 2021 *RMB'000* (Unaudited) | At 31 December 2020 *RMB'000* (Audited) |
|---|---|---|
| Current portion | **118,118** | 50,058 |
| Non-current portion | **11,021** | 8,405 |
| | **129,139** | 58,463 |

## 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 2021 *RMB'000* (Unaudited) | At 31 December 2020 *RMB'000* (Audited) |
|---|---|---|
| 0 to 90 days | **47,104** | 25,682 |
| 91 to 180 days | **1,250** | 3,043 |
| 181 to 365 days | **586** | 652 |
| Over 365 days | **33,579** | 33,546 |
| | **82,519** | 62,923 |

## 19. OTHER PAYABLES AND ACCRUALS

| | At 30 June 2021 *RMB'000* (Unaudited) | At 31 December 2020 *RMB'000* (Audited) |
|---|---|---|
| Accruals | **11,176** | 12,200 |
| Other payables *(Note)* | **51,640** | 45,844 |
| | **62,816** | 58,044 |

*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 2021** *RMB'000* **(Unaudited)** | At 31 December 2020 *RMB'000* (Audited) |
|---|---|---|
| **Current** | | |
| Interest bearing | | |
| Secured | | |
| – Short-term bank loans *(Note (i))* | **246,103** | 191,000 |
| **Unsecured** | | |
| – Short-term bank loans | **153,000** | 90,000 |
| | **399,103** | 281,000 |
| **Non-current** | | |
| Interest bearing | | |
| Secured | | |
| - long-term bank loans *(Note (i))* | **–** | 10,000 |
| | **399,103** | 291,000 |

*Notes:*

(i) As at 30 June 2021 and 31 December 2020, the Group's secured short-term bank loans and long-term bank loans were secured by certain of the Group's property, plant and equipment and leasehold land.

(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 2021 and 31 December 2020.

## 21. SHARE CAPITAL

| | **Number of shares** *'000* | **Amount** *US$* | **Amount** *RMB'000* |
|---|---|---|---|
| Authorised share capital: | | | |
| As at 1 January 2020, 31 December 2020 and 30 June 2021 | | | |
| Ordinary shares at US$0.0001 each | 500,000,000 | 50,000,000 | 340,449 |
| Issued share capital: | | | |
| As at 1 January 2020, 31 December 2020 and 30 June 2021 | 620,944 | 62,094 | 392 |

## 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 | |
|---|---|---|
| | **2021** | 2020 |
| | ***RMB'000*** | *RMB'000* |
| | **(Unaudited)** | (Unaudited) |
| Short-term employee benefits | **664** | 734 |
| Retirement benefit scheme contributions | **25** | 27 |
| Total compensation paid to key management personnel | **689** | 761 |

## 23. CAPITAL COMMITMENTS

| | **At 30 June 2021** | At 31 December 2020 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| | **(Unaudited)** | (Audited) |
| Commitments for the acquisition of property, plant and equipment: | | |
| – contracted for but not provided | **23,764** | 30,053 |

## 24. DEEMED DISPOSAL OF INTEREST IN A SUBSIDIARY WITHOUT LOSS OF CONTROL

On 22 April 2021, an indirectly wholly owned subsidiary of the Company, Hebei Dongguang entered into an agreement (the "**Agreement**") with a third party investor (the "**Investor**") in relation to the capital contributions (the "**Capital Contributions**") to a subsidiary, Xinjiang Xinji Energy Chemical Co., Limited ("**Xinjiang Xinji**"). Pursuant to the Agreement, total consideration of the Capital Contributions from the Investor was agreed at RMB96,080,000 in cash, in which RMB86,472,000 was injected as at 30 June 2021, and Hebei Dongguang also injected RMB80,000,000 in cash during the Reporting Period. Details please refer to the Company's announcement dated 22 April 2021.

Prior to the Capital Contributions, Hebei Dongguang had contributed share capital of RMB10,000,000 to Xinjiang Xinji. After the Capital Contributions, the total contribution were RMB90,000,000 and RMB86,472,000 by Hebei Dongguang and the Investor, respectively. The equity interest of the Group decreased from 100% to 51%, which was considered as a deemed disposal of a subsidiary. RMB94,000 has been reallocated from retained earnings to non-controlling interest during the period ended 30 June 2021. The effect of changes in the ownership interest of Xinjiang Xinji on the equity attributable to owners of the Company during the six months ended 30 June 2021 is summarised as follows:

| | **At 30 June 2021** *RMB'000* **(Unaudited)** |
|---|---|
| Carrying amount of non-controlling interests disposed of | **(94)** |
| Consideration received from non-controlling interests | **–** |
| Gain on deemed disposal within equity | **(94)** |

## 25. CONTINGENT LIABILITIES

As at 30 June 2021, neither the Group nor the Company had any significant contingent liabilities (31 December 2020: nil).

## 26. 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 2021.

## MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS REVIEW

In the first half of 2021, driven by various factors, the domestic fertilizer and chemical product market continued to recover, where prices of urea in the PRC generally maintained a strong uptrend. Under the COVID-19 pandemic, the increase in prices of raw materials and increase in export brought about a tight domestic supply, and the surge in food prices resulted in more active planting activities by farmers. As such, the demand for urea increased, which also boosted its prices. Being a major urea manufacturer in the PRC, the Group achieved outstanding financial performance in the first half of the year as a result of continuously strong price levels of urea.

During the Reporting Period, the Group recorded a significant increase in revenue. The Group recorded an increase in profit by approximately RMB86.1 million or 153.2%, from approximately RMB56.2 million for the six months ended 30 June 2020 to approximately RMB142.3 million for the Reporting Period, mainly due to the increase of overall gross profit and gross profit margin of the Group. The Group's revenue increased by approximately RMB299.3 million or 30.0% from approximately RMB996.1 million for the six months ended 30 June 2020 to approximately RMB1,295.4 million for the Reporting Period, mainly due to the increase in the average selling price of urea. During the Reporting Period, the average selling price of the Group's urea products was approximately RMB1,928 per tonne, representing an increase of approximately 27.4% from approximately RMB1,513 per tonne for the corresponding period in 2020. As a result of the increase in revenue and the higher percentage increase in revenue than the percentage increase in cost of sales during the Reporting Period, the Group's gross profit and gross profit margin also increased during the Reporting Period.

The Group has always adhered to the philosophy of innovative development, and has actively explored new markets and developed new products. In this regard, the sales of vehicle urea solution, a urea by-product newly developed by the Group in recent years, maintained a steady growth and continued to drive the increase in revenue during the Reporting Period. The Group's revenue generated from the sales of vehicle urea solution increased by approximately RMB94.0 million or 585.2% from approximately RMB16.1 million for the six months ended 30 June 2020 to approximately RMB110.1 million for the Reporting Period.

In terms of energy saving and emission reduction, the Group has continued to strengthen its investment in energy-efficient, environmentally-friendly treatment facilities, with a view to continuously reduce energy consumption and enhance efficiency in the use of energy. In August this year, at the "2021 China Nitrogen Fertilizer & Methanol Technical Conference" held by the China Nitrogen Fertilizer Industry Association, Hebei Dongguang was awarded with the Special Award of Science and Technology Award of China Nitrogen Fertilizer Industry Association 2020 for its "treatment technology of fixed-bed intermittent gas-making circulating water for volatile pollutants", and was once again awarded the title of Advanced Unit of Energy Conservation and Emission Reduction in the Nitrogen Fertilizer and Methanol Industry.

## OPERATING AND FINANCIAL REVIEW

### Revenue by Products

| | Six months ended 30 June 2021 *RMB'000* | Six months ended 30 June 2020 *RMB'000* | % Change +/(-) |
|---|---|---|---|
| Urea | **1,050,468** | 852,221 | 23.3% |
| Methanol | **71,724** | 46,931 | 52.8% |
| Other products | **173,215** | 96,935 | 78.7% |
| **Total** | **1,295,407** | 996,087 | 30.0% |

*Urea*

Revenue from urea increased by approximately RMB198.2 million, or 23.3%, from approximately RMB852.2 million for the six months ended 30 June 2020 to approximately RMB1,050.4 million for the Reporting Period, as the average selling price of the Group's urea products increased by approximately RMB415 per tonne, or 27.4%, from approximately RMB1,513 per tonne for the six months ended 30 June 2020 to approximately RMB1,928 per tonne for the Reporting Period, mainly due to the continued recovery of the domestic fertilizer and chemical product market during the Reporting Period. The sales volume of urea slightly decreased by approximately 3.3% for the Reporting Period as compared to the six months ended 30 June 2020.

*Methanol*

Revenue from methanol increased by approximately RMB24.8 million, or 52.8%, from approximately RMB46.9 million for the six months ended 30 June 2020 to approximately RMB71.7 million for the Reporting Period, as the average selling price of the Group's methanol products increased by approximately RMB401 per tonne, or 33.4%, from approximately RMB1,202 per tonne for the six months ended 30 June 2020 to approximately RMB1,603 per tonne for the Reporting Period, mainly due to the increase in energy prices during the Reporting Period. The sales volume of methanol increased by approximately 14.6% for the Reporting Period as compared to the six months ended 30 June 2020.

*Other products*

Other products include carbon dioxide, liquid ammonia, compound fertiliser, vehicle urea solution and LNG. Revenue from other products increased by approximately RMB76.3 million, or 78.7%, from approximately RMB96.9 million for the six months ended 30 June 2020 to approximately RMB173.2 million for the Reporting Period, mainly due to the increase in revenue of the Group's vehicle urea solution during the Reporting Period. The increase in revenue of vehicle urea solution was due to increase of market demand in the Reporting Period.

**Gross Profit and Gross Profit Margin**

| | **Six months ended 30 June 2021** | | **Six months ended 30 June 2020** | | | |
|---|---|---|---|---|---|---|
| | **Gross Profit/ (Loss)** | **Margin** | **Gross Profit/ (Loss)** | **Margin** | **Change** | |
| | ***RMB'000*** | ***%*** | *RMB'000* | *%* | *RMB'000* | *%* |
| Urea | **222,401** | **21.2** | 102,891 | 12.1 | 119,510 | 116.2 |
| Methanol | **(14,115)** | **(19.7)** | (16,655) | (35.5) | 2,540 | 15.3 |
| Other products | **34,605** | **20.0** | 35,308 | 36.4 | (703) | (2.0) |
| **Total** | **242,891** | **18.8** | 121,544 | 12.2 | 121,347 | 99.8 |

The Group's gross profit increased by approximately RMB121.4 million, or 99.8%, from approximately RMB121.5 million for the six months ended 30 June 2020, to approximately RMB242.9 million for the Reporting Period, primarily due to the increase in the Group's revenue resulting from the increase in the average selling price of the Group's urea and methanol products. The Group's cost of sales also increased, mainly due to the increase in raw materials costs during the Reporting Period. As a result of the increase in the Group's revenue and the higher percentage increase of revenue than the percentage increase of cost of sales during the Reporting Period, the Group's gross profit margin increased from approximately 12.2% for the six months ended 30 June 2020 to approximately 18.8% for the Reporting Period.

*Other income*

Other income increased by approximately RMB1.3 million, or 46.6%, from approximately RMB2.7 million for the six months ended 30 June 2020, to approximately RMB4.0 million for the Reporting Period, primarily due to the increase in bank interest income in the Reporting Period.

*Other gains and losses, net*

Other losses (net) increased by approximately RMB0.03 million, or 5.6%, from approximately RMB0.68 million for the six months ended 30 June 2020, to approximately RMB0.71 million for the Reporting Period, primarily due to the fair value loss on investment recognised at fair value through profit or loss in relation to the trading of urea future contracts and foreign exchange gain of RMB to HK$.

*Administrative expenses*

Administrative expenses increased by approximately RMB5.5 million, or 16.3%, from approximately RMB33.7 million for the six months ended 30 June 2020 to approximately RMB39.2 million for the Reporting Period, primarily due to the increase in provision for other receivables for the Reporting Period, and such increase was partially offset by the decrease in staff salaries and welfares, donation to support the local government and legal and professional fees 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 2020.

*Finance costs*

Finance costs decreased by approximately RMB0.2 million, or 2.2%, from approximately RMB9.5 million for the six months ended 30 June 2020 to approximately RMB9.3 million for the Reporting Period, with no material fluctuation.

*Taxation*

Income tax expenses increased by approximately RMB31.0 million, or 136.2%, from approximately RMB22.7 million for the six months ended 30 June 2020 to approximately RMB53.7 million for the Reporting Period primarily due to the increase in profit before income tax.

*Profit for the period*

Profit for the period increased by approximately RMB86.1 million, or 153.2%, from approximately RMB56.2 million for the six months ended 30 June 2020 to approximately RMB142.3 million for the Reporting Period. This was mainly due to the increase in gross profit of approximately RMB121.4 million and increase in gross profit margin. The increase in profit for the Reporting Period was partially offset by the increase in administrative expenses of approximately RMB5.5 million and increase in taxation of approximately RMB31.0 million.

**CAPITAL STRUCTURE**

As at 30 June 2021, the Group had net assets of approximately RMB1,434.9 million (as at 31 December 2020: approximately RMB1,234.1 million), comprising of non-current assets of approximately RMB1,189.3 million (as at 31 December 2020: approximately RMB1,251.0 million), and current assets of approximately RMB913.6 million (as at 31 December 2020: approximately RMB508.1 million), which primarily consist of cash and bank balances amounted to approximately RMB717.7 million (as at 31 December 2020: approximately RMB367.1 million). Moreover, inventories amounted to approximately RMB52.9 million (as at 31 December 2020: approximately RMB82.4 million) and prepayments, deposits and other receivables amounted to approximately RMB118.1 million (as at 31 December 2020: approximately RMB50.1 million) are also major current assets. The Group recorded a net current asset position of approximately RMB279.3 million as at 30 June 2021 (as at 31 December 2020: approximately RMB28.5 million). Major current liabilities are trade payables amounted to approximately RMB82.5 million (as at 31 December 2020: approximately RMB62.9 million), other payables and accruals amounted to approximately RMB62.8 million (as at 31 December 2020: approximately RMB58.0 million), contract liabilities amounted to approximately RMB59.3 million (as at 31 December 2020: RMB64.8 million) and interest-bearing bank and other borrowings amounted to RMB399.1 million (as at 31 December 2020: approximately RMB281.0 million).

## LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2021, the Group had cash and bank balances of approximately RMB717.7 million (as at 31 December 2020: approximately RMB367.1 million) and had total interest-bearing bank borrowings of approximately RMB399.1 million (as at 31 December 2020: approximately RMB291.0 million). The Group's interest-bearing bank borrowings bear interests ranging from 3.2% to 5.2% (as at 31 December 2020: 3.7% to 5.2%) per annum.

As at 30 June 2021, total current bank and other borrowings of the Group repayable within one year were approximately RMB399.1 million (as at 31 December 2020: approximately RMB281.0 million).

As at 30 June 2021, the gearing ratio for the Group was 29.8% (as at 31 December 2020: 23.6%), calculated based on bank and other borrowings of approximately RMB399.1 million (as at 31 December 2020: approximately RMB291.0 million) and equity attributable to owners of the Company of approximately RMB1,341.5 million (as at 31 December 2020: approximately RMB1,230.9 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 obligations whilst supporting its working capital requirements and future expansion.

## PROSPECTS

Looking forward, in the second half of the year, given the effective control of the COVID-19 pandemic in the PRC and the continued recovery of the economy, the domestic demand of chemical fertilizer is expected to maintain its consistent growth. In terms of industrial economy, along with the gradual commencements of new infrastructure projects in the PRC and the recovery of overseas economies, it is likely that the overall industrial demand for urea will continue to increase. In addition, the introduction of carbon neutrality and carbon peaks policies in the PRC brings new challenges and opportunities for the chemical industry, the supply and demand tensions for chemical fertilizers are expected to continue, companies will need to rely on and develop new environmental protection and production technologies to achieve sustainable development. Nevertheless, the Group has considerable advantages in energy conservation, emission reduction and green production. As always, the Group will commit to the path of safe, green, high-quality and sustainable development, fully leveraging the favourable development platform of the capital market to actively seek new development opportunities. It will continue to improve its market competitiveness and risk tolerance through investment, mergers and acquisitions and pursue continuous technological innovation, new product development and product structure adjustment to realise steady and rapid development of the Group under the premise of safety and environmental protection.

## 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 nor 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 2021, capital commitment of the Group which had been contracted for but not provided in the financial statements was approximately RMB23.8 million (as at 31 December 2020: RMB30.1 million).

## CHARGE ON ASSETS

As at 30 June 2021 and 31 December 2020, the Group's secured short-term bank loans and long-term bank loans were secured by certain of the Group's property, plant and equipment, leasehold land, inventories and bank deposits.

## CONTINGENT LIABILITIES

As at 30 June 2021, the Group did not have any material contingent liabilities (as at 31 December 2020: Nil).

## EMPLOYEES AND EMOLUMENT POLICY

As at 30 June 2021, the Group employed a total of 1,293 employees (as at 31 December 2020: 1,315 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 RMB54.1 million (six months ended 30 June 2020: RMB50.4 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

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 Chemcial Limited**
**東光化工有限公司**
**Wang Zhihe**
*Chairman*

The PRC, 27 August 2021

*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.*