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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

2021
INTERIM REPORT



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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Wang Zhihe (*Chairman*)
Mr. Sun Zushan
Mr. Xu Xijiang

Non-executive Director

Ms. Chen Jimin

Independent non-executive Directors

Ms. Lin Xiuxiang
Mr. Liu Jincheng
Mr. Ng Sai Leung

BOARD COMMITTEES

Audit Committee

Mr. Ng Sai Leung (*Chairman*)
Ms. Lin Xiuxiang
Mr. Liu Jincheng

Remuneration Committee

Ms. Lin Xiuxiang (*Chairlady*)
Mr. Liu Jincheng
Mr. Sun Zushan

Nomination Committee

Mr. Wang Zhihe (*Chairman*)
Ms. Lin Xiuxiang
Mr. Liu Jincheng

Corporate Governance Committee

Mr. Ng Sai Leung (*Chairman*)
Mr. Xu Xijiang
Ms. Lin Xiuxiang

COMPANY SECRETARY

Mr. Cheng Shing Hay, HKICPA
(non-practising), CAANZ

AUTHORISED REPRESENTATIVES

(for the purpose of the Listing Rules)

Mr. Wang Zhihe
Mr. Cheng Shing Hay

COMPANY'S LEGAL ADVISER AS TO HONG KONG LAW

Chiu & Partners

AUDITOR

BDO Limited
Certified Public Accountants

REGISTERED OFFICE

Cricket Square
Hutchins Drive
PO Box 2681
Grand Cayman KY1-1111
Cayman Islands

HEADQUARTERS IN THE PRC

Chengdong Industrial Zone
Dongguang County
Hebei Province
The PRC

CORPORATE INFORMATION (CONTINUED)

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 1615-20, 16/F, Tower II,
Grand Century Place
193 Prince Edward Road West
Mongkok, Kowloon
Hong Kong

SHARE REGISTRAR AND TRANSFER OFFICE

Principal Share Registrar and Transfer Office in the Cayman Islands

Conyers Trust Company
(Cayman) Limited
Cricket Square
PO Box 2681
Grand Cayman KY1-1111
Cayman Islands

Hong Kong Branch Share Registrar and Transfer Office

Tricor Investor Services Limited
Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

PRINCIPAL BANKERS

China Construction Bank
Dongguang Branch
Industrial and Commercial Bank of
China Limited Dongguang Branch
Agricultural Bank of China
Dongguang County Branch
Bank of Cangzhou Dongguang Branch

STOCK CODE

1702

COMPANY WEBSITE

www.dg-chemical.com

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 six months ended 30 June 2021 (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.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

BUSINESS REVIEW (CONTINUED)

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 Chemical Co., Ltd.* (河北省東光化工有限公司) (“**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.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

OPERATING AND FINANCIAL REVIEW (CONTINUED)

Revenue by Products (Continued)

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		Change	
	Gross Profit/ (Loss) RMB'000	Margin %	Gross Profit/ (Loss) RMB'000	Margin %	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

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

OPERATING AND FINANCIAL REVIEW (CONTINUED)

Gross Profit and Gross Profit Margin (Continued)

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 welfare, 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.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

OPERATING AND FINANCIAL REVIEW (CONTINUED)

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.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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).

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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.

OTHER INFORMATION

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

As at 30 June 2021, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong (the "SFO"), as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), were as follows:

Name of Director	The company in which the interest is held	Capacity/nature of interest	Number of shares involved (Note 1)	Approximate percentage* of shareholding
Mr. Wang Zhihe	The Company	Interest of controlled corporation	460,000,000 Shares (L) (Note 2)	74.08%

* The percentage represents the number of shares involved divided by the number of the Company's issued shares as at 30 June 2021.

Notes:

1. The letter "L" denotes the Director's long position in the shares of the Company ("Shares").
2. Among these 460,000,000 Shares, 279,680,000 Shares are held by SINO-COAL CHEMICAL HOLDING GROUP LIMITED ("**Sino-Coal Holding**") (which is owned as to approximately 33.059% by Timely Moon Limited ("**Timely Moon**")); and 180,320,000 Shares are held by Bloom Ocean Investments Limited ("**Bloom Ocean**") (which is owned as to approximately 44.27% by Timely Moon). Timely Moon is wholly owned by Mr. Wang Zhihe. By virtue of the SFO, each of Timely Moon and Mr. Wang Zhihe is taken to be interested in the Shares held by each of Sino-Coal Holding and Bloom Ocean.

Save as disclosed above, as at 30 June 2021, none of the Directors or chief executive of the Company had any interests and short positions in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO), as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

OTHER INFORMATION (CONTINUED)

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 June 2021, so far as is known to the Directors, the following corporations or persons (other than a Director or the chief executive of the Company) had an interest or short position in the Shares and underlying Shares as recorded in the register required to be kept by the Company under Section 336 of the SFO:

Name of Shareholders	Capacity/nature of interest	Number of shares involved (Note 1)	Approximate percentage* of shareholding
Timely Moon	Interest of controlled corporation	460,000,000 Shares (L) (Note 2)	74.08%
Ms. Sun Yukun	Interest of spouse	460,000,000 Shares (L) (Note 3)	74.08%
Sino-Coal Holding	Beneficial owner	279,680,000 Shares (L)	45.04%
Bloom Ocean	Beneficial owner	180,320,000 Shares (L)	29.04%
Plenty Sun	Interest of controlled corporation	180,320,000 Shares (L) (Note 4)	29.04%
Mr. Sun Yi	Interest of controlled corporation	180,320,000 Shares (L) (Note 4)	29.04%
Ms. Yao Juan	Interest of spouse	180,320,000 Shares (L) (Note 5)	29.04%
Guofu (Hong Kong) Holdings Limited	Beneficial owner	31,132,000 Shares (L) (Note 6)	5.01%
Hebei Guofu Agricultural Investment Group Co., Ltd** (河北省國富農業投資集團有限公司)	Interest of controlled corporation	31,132,000 Shares (L) (Notes 6 & 7)	5.01%

* The percentage represents the number of shares involved divided by the number of the Company's issued shares as at 30 June 2021.

** Denotes English translation of the name of a Chinese company, and is provided for identification purposes only.

OTHER INFORMATION (CONTINUED)

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES (CONTINUED)

Notes:

1. The letter "L" denotes the shareholder's long position in the Shares.
2. Among these 460,000,000 Shares, 279,680,000 Shares are held by Sino-Coal Holding (which is owned as to approximately 33.059% by Timely Moon); and 180,320,000 Shares are held by Bloom Ocean (which is owned as to approximately 44.27% by Timely Moon). Timely Moon is wholly owned by Mr. Wang Zhihe. By virtue of the SFO, each of Timely Moon and Mr. Wang Zhihe is taken to be interested in the Shares held by each of Sino-Coal Holding and Bloom Ocean.
3. Ms. Sun Yukun is the spouse of Mr. Wang Zhihe. Under the SFO, Ms. Sun Yukun is taken to be interested in the same number of Shares in which Mr. Wang Zhihe is interested.
4. These 180,320,000 Shares are held by Bloom Ocean (which is owned as to approximately 44.01% by Plenty Sun Limited ("**Plenty Sun**")). Plenty Sun is wholly owned by Mr. Sun Yi. By virtue of the SFO, each of Plenty Sun and Mr. Sun Yi is taken to be interested in the Shares held by Bloom Ocean.
5. Ms. Yao Juan is the spouse of Mr. Sun Yi. Under the SFO, Ms. Yao Juan is taken to be interested in the same number of Shares in which Mr. Sun Yi is interested.
6. The information disclosed is based on the disclosure of interests forms submitted by these substantial shareholders respectively.
7. Hebei Guofu Agricultural Investment Group Co., Ltd** (河北省國富農業投資集團有限公司) is deemed to be interested in these Shares through its controlled corporation, namely, Guofu (Hong Kong) Holdings Limited.

Save as disclosed above, as at 30 June 2021, other than the Directors and the chief executive of the Company whose interests are set out in the paragraph headed "Directors' and chief executive's interests and short positions in the shares, underlying shares and debentures of the Company or any associated corporation" above, no person had interest or short position in the Shares or underlying Shares which were required to be recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

SHARE OPTION SCHEME

The Company has adopted a share option scheme (the "**Scheme**") on 20 June 2017. The purpose of the Scheme is to provide incentives or rewards to selected participants who contribute to the success of the Group's operations. The Scheme will remain in force for a period of 10 years commencing on the date on which the Scheme was adopted. No share options have been granted, exercised or cancelled by the Company under the Scheme since its adoption and up to the date of this report.

OTHER INFORMATION (CONTINUED)

EVENTS AFTER THE REPORTING PERIOD

There was no event that will have material impact on the Group from the end of the Reporting Period to the date of this report.

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.

Reference is made to the announcement of the Company dated 12 September 2021 in relation to the disposal of the 51% equity interests in Xinjiang Xinji Energy Chemical Co., Ltd.* (新疆新冀能源化工有限公司) ("**Xinjiang Xinji**"). On 12 September 2021, Hebei Dongguang as vendor entered into the conditional equity transfer agreement with Hangzhou Jinjiang Group Co., Ltd.* (杭州錦江集團有限公司) ("**Hangzhou Jinjiang**") as purchaser, Xinjiang Lvyuan State-owned Capital Investment Operation Co., Ltd.* (新疆綠原國有資本投資運營有限公司) (formerly known as "Xinjiang Lvyuan State-owned Assets Management Group Co., Ltd.* 新疆綠原國有資產經營集團有限公司") ("**Xinjiang Lvyuan**") as shareholder of Xinjiang Xinji and Xinjiang Xinji, pursuant to which Hangzhou Jinjiang has agreed to acquire 51% of the entire equity interests in Xinjiang Xinji from Dongguang Chemical (the "**Disposal**"). The consideration for the Disposal was RMB90 million.

Hangzhou Jinjiang is principally engaged in the investment of environmental protection energy, non-ferrous metals and chemical industries. To the best of the knowledge, information and belief of the board of Directors (the "**Board**") and having made all reasonable enquiry, Hangzhou Jinjiang is ultimately owned as to approximately (i) 53.1% by Tou Zhenggang (糾正剛); (ii) 32.5% by Wei Xuefeng (尉雪鳳); and (iii) 14.4% by Tou Baibing (糾白冰).

Xinjiang Lvyuan is principally engaged in state-owned asset investment and asset management, wholesale and retail: purchase and sale of agricultural film, fertilizers, other agricultural and livestock products, other machinery and equipment, building materials, steel, coal, lint; and agricultural irrigation services. To the best of the knowledge, information and belief of the Board, and having made all reasonable enquiries, Xinjiang Lvyuan is owned as to 90% by Finance Bureau of the Second Division of Xinjiang Production and Construction Corps* (新疆生產建設兵團第二師財政局) and as to 10% by State-owned Assets Supervision and Administration Commission of Xinjiang Production and Construction Corps* (新疆生產建設兵團國有資產監督管理委員會).

OTHER INFORMATION (CONTINUED)

To the best of the knowledge, information and belief of the Board and having made all reasonable enquiry, Hangzhou Jinjiang and Xinjiang Lv Yuan and its respective ultimate beneficial owners are third parties independent of the Company and its connected persons.

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.

OTHER INFORMATION (CONTINUED)

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.

DISCLOSURE PURSUANT TO RULE 13.51B(1) OF THE LISTING RULES

The Company is not aware of any changes in Directors’ information during the Reporting Period which are required to be disclosed pursuant to rule 13.51B(1) of 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, 27 August 2021

REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS



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TO THE BOARD OF DIRECTORS OF DONGGUANG CHEMICAL LIMITED
(incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim condensed consolidated financial statements set out on pages 20 to 40 which comprise the condensed consolidated statement of financial position of Dongguang Chemical Limited (the “**Company**”) and its subsidiaries (collectively referred to as the “**Group**”) as of 30 June 2021 and the related condensed consolidated statement of profit or loss and other comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes (the “**interim condensed consolidated financial statements**”). The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 “Interim Financial Reporting” (“**IAS 34**”). The directors are responsible for the preparation and presentation of the interim condensed consolidated financial statements in accordance with IAS 34. Our responsibility is to express a conclusion on the interim condensed consolidated financial statements based on our review. This report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review 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. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

BDO Limited

Certified Public Accountants

Ho Yee Man

Practising Certificate Number: P07395

Hong Kong

27 August 2021

**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
		<i>RMB cents</i>	<i>RMB cents</i>
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

		At	At
		30 June	31 December
		2021	2020
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
		(Unaudited)	(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		<u>1,189,267</u>	<u>1,250,982</u>
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		<u>913,555</u>	<u>508,070</u>
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		<u>634,240</u>	<u>479,598</u>
Net current assets		<u>279,315</u>	<u>28,472</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

AS AT 30 JUNE 2021

		At 30 June 2021	At 31 December 2020
	Notes	RMB'000 (Unaudited)	RMB'000 (Audited)
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		<u>33,636</u>	<u>45,378</u>
Net assets		<u>1,434,946</u>	<u>1,234,076</u>
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		<u>93,426</u>	<u>3,169</u>
Total equity		<u>1,434,946</u>	<u>1,234,076</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 30 JUNE 2021

	Share capital RMB'000	Share premium RMB'000	Specific reserve RMB'000	Merger reserve RMB'000	Statutory reserve RMB'000	Foreign currency translation reserve RMB'000	Retained earnings RMB'000	Attributable to owners of the Company RMB'000	Non-controlling interest RMB'000	Total equity RMB'000
At 1 January 2020	392	738,848	54,999	(559,842)	96,161	(2,260)	815,124	1,143,422	1,960	1,145,382
Profit for the period	-	-	-	-	-	-	54,895	54,895	1,314	56,209
Exchange differences arising on translation of foreign operations	-	-	-	-	-	1,040	-	1,040	-	1,040
Total comprehensive income for the period	-	-	-	-	-	1,040	54,895	55,935	1,314	57,249
Dividends approved in respect of the previous year	-	-	-	-	-	-	(33,607)	(33,607)	-	(33,607)
Appropriation of reserve	-	-	6,943	-	-	-	(6,943)	-	-	-
Utilisation of specific reserve for the period	-	-	(4,236)	-	-	-	4,236	-	-	-
At 30 June 2020	392	738,848	57,706	(559,842)	96,161	(1,220)	833,705	1,165,750	3,274	1,169,024
	Share capital RMB'000	Share premium RMB'000	Specific reserve RMB'000	Merger reserve RMB'000	Statutory reserve RMB'000	Foreign currency translation reserve RMB'000	Retained earnings RMB'000	Attributable to owners of the Company RMB'000	Non-controlling interest RMB'000	Total equity RMB'000
At 1 January 2021	392	738,848	56,581	(559,842)	96,407	(6,444)	904,965	1,230,907	3,169	1,234,076
Profit for the period	-	-	-	-	-	-	138,459	138,459	3,879	142,338
Exchange differences arising on translation of foreign operations	-	-	-	-	-	(2,097)	-	(2,097)	-	(2,097)
Total comprehensive income for the period	-	-	-	-	-	(2,097)	138,459	136,362	3,879	140,241
Capital contribution from non-controlling interest to a subsidiary (Note 24)	-	-	-	-	-	-	-	-	86,472	86,472
Change in ownership in interest in a subsidiary without change of control (Note 24)	-	-	-	-	-	-	94	94	(94)	-
Dividends approved in respect of the previous year	-	-	-	-	-	-	(25,843)	(25,843)	-	(25,843)
Appropriation of reserve	-	-	8,587	-	1,149	-	(9,736)	-	-	-
Utilisation of specific reserve for the period	-	-	(6,520)	-	-	-	6,520	-	-	-
At 30 June 2021	392	738,848	58,648	(559,842)	97,556	(8,541)	1,014,459	1,341,520	93,426	1,434,946

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED 30 JUNE 2021

	Six months ended 30 June	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Operating activities		
Profit before income tax	196,042	78,950
Adjustments for:		
Depreciation of right-of-use assets	1,485	1,364
Depreciation of investment property	424	329
Depreciation of property, plant and equipment	89,673	79,634
Loss/(gain) on investment recognised at fair value through profit or loss	705	(1,816)
Fair value loss on financial liabilities at fair value through profit or loss	1,741	–
Impairment of other receivables	17,120	–
Government grant income	(1,625)	(1,627)
Interest income	(1,186)	(578)
Interest expense	9,260	9,471
	<hr/>	<hr/>
Operating profit before working capital changes	313,639	165,727
Decrease in inventories	29,497	37,498
Increase in trade receivables	(15,385)	(14,629)
(Increase)/decrease in notes receivables	(900)	188
(Increase)/decrease in prepayments, deposits and other receivables	(85,180)	8,313
Increase/(decrease) in trade payables	19,596	(2,842)
Decrease in contract liabilities	(5,483)	(11,851)
Increase/(decrease) in other payables and accruals	4,772	(23,251)
	<hr/>	<hr/>
Cash generated from operations	260,556	159,153
Investment loss paid/(income received)	(705)	1,816
Income tax paid	(37,627)	(20,741)
	<hr/>	<hr/>
Net cash generated from operating activities	222,224	140,228

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2021

	Six months ended 30 June	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Investing activities		
Purchase of property, plant and equipment	(26,501)	(47,081)
Increase in advance of prepayments for acquisitions of equipment	(2,616)	(857)
Decrease in restricted bank deposits	–	5,000
Deposits paid for future contracts	(1,267)	–
Interest received	1,186	578
	<hr/>	<hr/>
Net cash used in investing activities	(29,198)	(42,360)
	<hr style="border-top: 1px dashed #000;"/>	<hr style="border-top: 1px dashed #000;"/>
Financing activities		
Drawdown of bank and other borrowings	328,000	107,000
Repayment of bank and other borrowings	(221,000)	(176,058)
Dividend paid	(25,843)	(33,607)
Capital injection from shareholders of a subsidiary	86,472	–
Interest paid	(7,921)	(8,971)
	<hr/>	<hr/>
Net cash generated from/(used in) financing activities	159,708	(111,636)
	<hr style="border-top: 1px dashed #000;"/>	<hr style="border-top: 1px dashed #000;"/>
Net increase/(decrease) in cash and cash equivalents	352,734	(13,768)
Effect of foreign exchange rate changes	(2,097)	1,040
Cash and cash equivalents at the beginning of the period	367,104	431,825
	<hr/>	<hr/>
Cash and cash equivalents at the end of the period	717,741	419,097
	<hr/>	<hr/>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 JUNE 2021

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.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

30 JUNE 2021

2. BASIS OF PREPARATION (CONTINUED)

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. BDO Limited's independent review report to the Board of Directors is included on page 18 to page 19.

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.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

30 JUNE 2021

3. CHANGES IN IFRSs (CONTINUED)

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

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 have 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 report, 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.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

30 JUNE 2021

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
	<i>RMB'000</i>	<i>RMB'000</i>
	(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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

30 JUNE 2021

6. REVENUE AND OTHER INCOME (CONTINUED)

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

	30 June 2021	31 December 2020
	<i>RMB'000</i>	<i>RMB'000</i>
	(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
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
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/(losses)	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.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

30 JUNE 2021

9. FINANCE COSTS

	Six months ended 30 June	
	2021 RMB'000 (Unaudited)	2020 RMB'000 (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 RMB'000 (Unaudited)	2020 RMB'000 (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.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

30 JUNE 2021

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)
	<u>53,704</u>	<u>22,741</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 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).

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

30 JUNE 2021

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
	<i>RMB'000</i>	<i>RMB'000</i>
	(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
	<i>RMB'000</i>	<i>RMB'000</i>
	(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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

30 JUNE 2021

16. TRADE RECEIVABLES

	At 30 June 2021 <i>RMB'000</i> (Unaudited)	At 31 December 2020 <i>RMB'000</i> (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 <i>RMB'000</i> (Unaudited)	At 31 December 2020 <i>RMB'000</i> (Audited)
Within 3 months	23,876	8,491

17. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	At 30 June 2021 <i>RMB'000</i> (Unaudited)	At 31 December 2020 <i>RMB'000</i> (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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

30 JUNE 2021

17. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (CONTINUED)

Represented by:

	At 30 June 2021	At 31 December 2020
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Audited)
Current portion	118,118	50,058
Non-current portion	11,021	8,405
	<u>129,139</u>	<u>58,463</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 2021	At 31 December 2020
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(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
	<u>82,519</u>	<u>62,923</u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

30 JUNE 2021

19. OTHER PAYABLES AND ACCRUALS

	At 30 June 2021 <i>RMB'000</i> (Unaudited)	At 31 December 2020 <i>RMB'000</i> (Audited)
Accruals	11,176	12,200
Other payables (<i>Note</i>)	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 <i>RMB'000</i> (Unaudited)	At 31 December 2020 <i>RMB'000</i> (Audited)
Current		
Interest bearing		
Secured		
– Short-term bank loans (<i>Note (i)</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 (<i>Note (i)</i>)	–	10,000
	399,103	291,000

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

30 JUNE 2021

20. BANK AND OTHER BORROWINGS (CONTINUED)

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

30 JUNE 2021

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
	<hr/>	<hr/>
Total compensation paid to key management personnel	689	761
	<hr/>	<hr/>

23. CAPITAL COMMITMENTS

	At	At
	30 June	31 December
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Commitments for the acquisition of property, plant and equipment and leasehold land:		
– contracted for but not provided	23,764	30,053
	<hr/>	<hr/>

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**”). Total considerations of the Capital Contributions from Hebei Dongguang and the Investor were agreed at RMB90,000,000 and RMB96,080,000 in cash, in which RMB80,000,000 and RMB86,472,000 were injected. Details please refer to the Company’s announcement dated 22 April 2021.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

30 JUNE 2021

24. DEEMED DISPOSAL OF INTEREST IN A SUBSIDIARY WITHOUT LOSS OF CONTROL (CONTINUED)

Prior to the Capital Contributions, Hebei Dongguang has contributed share capital of RMB10,000,000 to Xinjiang Xinji. After the Capital Contributions, the equity interest of the Group has been 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	—
	<hr/>
Gain on deemed disposal within equity	(94)
	<hr/>

25. FAIR VALUE

(a) Carrying amount versus fair value

Financial instruments not measured at fair value include trade receivables, notes receivables, deposits and other receivables, cash and bank balances, trade payables, other payables and accruals, bank and other borrowings and amount due to a non-controlling shareholder of a subsidiary. Due to their short-term nature, their carrying values approximate their fair values. Disclosure of fair value of lease liabilities is not required.

The fair value of financial liabilities at fair value through profit or loss as at 30 June 2021 was explained in Note 25(c).

(b) Fair value hierarchy

The level in the fair value hierarchy within which the financial asset or financial liability is categorised is determined on the basis of the lowest level input that is significant to the fair value measurement.

Financial assets and financial liabilities are classified in their entirety into only one of the three levels.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

30 JUNE 2021

25. FAIR VALUE (CONTINUED)

(b) Fair value hierarchy (Continued)

The fair value hierarchy has the following levels:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

(c) Valuation techniques

The fair value of financial liabilities at fair value through profit or loss as at 30 June 2021 was determined by the quoted market price as disclosed by the commodity futures exchange market that the respective commodity futures contracts are traded. Therefore, it is classified under Level 1 hierarchy.

(d) Transfers during the period

During the six month period to 30 June 2021:

- There were no transfers between Level 1 and Level 2 fair value measurements; and
- There were no transfer into or out of Level 3 fair value measurements.

26. CONTINGENT LIABILITIES

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

27. 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.

28. APPROVAL OF FINANCIAL STATEMENTS

The unaudited interim condensed consolidated financial statements were approved and authorised for issue by the Board of Directors on 27 August 2021.