

*Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.*



**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 2022**

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 2022 (the “**Reporting Period**”). The relevant financial figures for the corresponding period in 2021 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 2022*

		<b>Six months ended 30 June</b>	
	<i>Notes</i>	<b>2022</b>	<b>2021</b>
		<b>RMB'000</b>	<b>RMB'000</b>
		<b>(Unaudited)</b>	<b>(Unaudited)</b>
<b>Revenue</b>	6	<b>1,720,310</b>	1,295,407
Cost of sales		<u><b>(1,469,876)</b></u>	<u>(1,052,516)</u>
<b>Gross profit</b>		<b>250,434</b>	242,891
Other income	6	<b>2,830</b>	3,954
Other gains or losses, net	7	<b>(8,477)</b>	(713)
Administrative expenses		<b>(29,877)</b>	(39,159)
Distribution expenses		<b>(1,972)</b>	(1,671)
Finance costs	9	<b>(982)</b>	(9,260)
<b>Profit before income tax</b>	10	<b>211,956</b>	196,042
Income tax expenses	11	<b>60,936</b>	(53,704)
Profit for the period		<b>151,020</b>	142,338
<b>Other comprehensive income that may be reclassified to profit or loss in subsequent periods</b>			
Exchange differences on translation of foreign operation		<u><b>6,343</b></u>	<u>(2,097)</u>
<b>Total comprehensive income for the period attributable to owners of the Company</b>		<u><b>157,363</b></u>	<u>140,241</u>
<b>Profit attributable to:</b>			
– Owners of the Company		<b>147,895</b>	138,459
– Non-controlling interest		<b>3,125</b>	3,879
		<u><b>151,020</b></u>	<u>142,338</u>
<b>Total comprehensive income attributable to:</b>			
– Owners of the Company		<b>154,238</b>	136,362
– Non-controlling interest		<b>3,125</b>	3,879
		<u><b>157,363</b></u>	<u>140,241</u>
		<i>RMB cents</i>	<i>RMB cents</i>
<b>Earnings per share for profit attributable to the owners of the Company</b>			
– Basic	13	<u><b>23.8</b></u>	<u>22.3</u>
– Diluted	13	<u><b>23.8</b></u>	<u>22.3</u>

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2022

		At 30 June 2022 <i>RMB'000</i> (Unaudited)	At 31 December 2021 <i>RMB'000</i> (Audited)
<b>Non-current assets</b>			
Property, plant and equipment	14	983,470	1,014,656
Investment property		13,554	13,979
Right-of-use assets		114,388	115,846
Unlisted equity investment at fair value through other comprehensive income		40	40
Prepayments for equipment and land lease	17	236	3,657
<b>Total non-current assets</b>		<b>1,111,688</b>	1,148,178
<b>Current assets</b>			
Inventories	15	116,315	139,247
Trade receivables	16	14,211	17,741
Notes receivables		–	100
Prepayments, deposits and other receivables	17	115,590	110,202
Cash and bank balances		459,984	425,061
<b>Total current assets</b>		<b>706,100</b>	692,351
<b>Current liabilities</b>			
Trade payables	18	47,821	54,380
Deferred revenue		826	826
Contract liabilities	6	27,770	70,810
Other payables and accruals	19	81,219	87,846
Lease liabilities		80	77
Short-term bank and other borrowings	20	–	96,000
Income tax payable		46,587	12,617
Amount due to a non-controlling shareholder of a subsidiary	22(a)	40	40
<b>Total current liabilities</b>		<b>204,343</b>	322,596

	<b>At</b>	<b>At</b>
	<b>30 June</b>	<b>31 December</b>
	<b>2022</b>	<b>2021</b>
<i>Notes</i>	<b>RMB'000</b>	<b>RMB'000</b>
	<b>(Unaudited)</b>	<b>(Audited)</b>
<b>Net current assets</b>	<b>501,757</b>	369,755
<b>Non-current liabilities</b>		
Lease liabilities	<b>29,191</b>	28,211
Deferred revenue	<b>3,582</b>	3,995
Deferred tax liabilities	<b>5,073</b>	6,716
<b>Total non-current liabilities</b>	<b>37,846</b>	38,922
<b>Net assets</b>	<b>1,575,599</b>	1,479,011
<b>Capital and reserves attributable to owners of the Company</b>		
Share capital	<b>392</b>	392
Reserves	<b>1,568,338</b>	1,465,565
Equity attributable to owners of the Company	<b>1,568,730</b>	1,465,957
<b>Non-controlling interests</b>	<b>6,869</b>	13,054
<b>Total equity</b>	<b>1,575,599</b>	1,479,011

# 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 Act, 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 26 August 2022.

These interim condensed consolidated financial statements have been prepared with the same accounting policies adopted in the 2021 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 2022. 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 2021 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 2021 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 16, *Proceeds before Intended Use*
- Amendments to IAS 37, *Onerous Contracts – Cost of Fulfilling a Contract*
- Annual Improvements to IFRSs 2018-2020

The new or amended IFRSs that are effective from 1 January 2022 did not have any significant impact on the Group's accounting policies.

#### ***Amendments to IAS 16, *Proceeds before Intended Use****

The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, the proceeds from selling such items, and the cost of producing those items, is recognised in profit or loss.

The directors of the Company do not anticipate that the application of the amendments and revision in the future will have an impact on the condensed consolidated interim financial statements.

#### ***Amendments to IAS 37, *Onerous Contracts – Cost of Fulfilling a Contract****

The amendments specify that the “cost of fulfilling” a contract comprises the “costs that relate directly to the contract”. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract (e.g. direct labour and materials) or an allocation of other costs that relate directly to fulfilling contracts (e.g. the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

The directors of the Company is currently assessing the impact that the application of the amendments will have on the Group's condensed consolidated interim financial statements. The directors of the Company anticipate that the application of the amendments will likely impact on the Group's accounting policies in respect of the determination of when contracts are onerous, and the measurement of provision for onerous contracts recognised.

### *Annual Improvements to IFRSs 2018-2020*

The annual improvements amends a number of standards, including:

- IFRS 1, First-time Adoption of International Financial Reporting Standards, which permit a subsidiary that applies paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported by its parent, based on the parent's date of transition to IFRSs.
- IFRS 9, Financial Instruments, which clarify the fees included in the "10 per cent" test in paragraph B3.3.6 of IFRS 9 in assessing whether to derecognise a financial liability, explaining that only fees paid or received between the entity and the lender, including fees paid or received by either the entity or the lender on other's behalf are included.
- IFRS 16, Leases, which amend Illustrative Example 13 to remove the illustration of reimbursement of leasehold improvements by the lessor in order to resolve any potential confusion regarding the treatment of lease incentives that might arise because of how lease incentives are illustrated in that example.
- IAS 41, Agriculture, which remove the requirement to exclude taxation cash flows when measuring the fair value of a biological asset using a present value technique.

The directors of the Company do not anticipate that the application of the amendments in the future will have an impact on the condensed consolidated interim financial statements.

#### **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 2022.

## 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 2021 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.

	<b>Six months ended 30 June</b>	
	<b>2022</b>	<b>2021</b>
	<b>RMB'000</b>	<b>RMB'000</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
<b>Revenue</b>		
Primary geographical market		
– PRC	<b><u>1,720,310</u></b>	<b><u>1,295,407</u></b>
Major products		
– Sales of urea	<b>1,429,775</b>	1,050,468
– Sales of methanol	<b>77,704</b>	71,724
– Sales of liquid ammonia	<b>51,053</b>	17,459
– Sales of carbon dioxide	<b>8,454</b>	19,771
– Sales of LNG	<b>20,364</b>	11,325
– Sales of compound fertiliser	<b>29,816</b>	14,545
– Sales of vehicle urea solution	<b><u>103,144</u></b>	<b><u>110,115</u></b>
	<b><u>1,720,310</u></b>	<b><u>1,295,407</u></b>
Timing of revenue recognition		
– At a point in time	<b><u>1,720,310</u></b>	<b><u>1,295,407</u></b>
<b>Other income is presented as follows:</b>		
Government grants	<b>2,102</b>	1,667
Bank interest income	<b>1,935</b>	1,186
Rental income	<b>–</b>	391
Others	<b><u>(1,207)</u></b>	<b><u>710</u></b>
	<b><u>2,830</u></b>	<b><u>3,954</u></b>

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

	<b>30 June 2022</b>	31 December 2021
	<b>RMB'000</b>	RMB'000
	<b>(Unaudited)</b>	(Audited)
Contract liabilities	<u>27,770</u>	<u>70,810</u>

Contract liabilities mainly relate to the advance consideration received from customers. During the six months ended 30 June 2022, RMB70,810,000 (year ended 31 December 2021: RMB64,814,000) 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:

	<b>Six months ended 30 June</b>	
	<b>2022</b>	2021
	<b>RMB'000</b>	RMB'000
	<b>(Unaudited)</b>	(Unaudited)
Gain/(loss) on investment recognised at fair value through profit or loss	<b>330</b>	(705)
Fair value loss on investment recognised at fair value through profit or loss	–	(1,741)
Foreign exchange (loss)/gain	<u><b>(8,807)</b></u>	<u>1,733</u>
	<u><b>(8,477)</b></u>	<u>(713)</u>

## 8. SEGMENT INFORMATION

### *Operating segment information*

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

## 9. FINANCE COSTS

	<b>Six months ended 30 June</b>	
	<b>2022</b>	2021
	<i>RMB'000</i>	<i>RMB'000</i>
	<b>(Unaudited)</b>	(Unaudited)
<b>Interest expense in relation to:</b>		
Bank and other loans wholly repayable within five years	782	9,024
Lease liabilities	982	986
	<u>1,764</u>	<u>10,010</u>
Less: Amount capitalised ( <i>Note</i> )	<u>(782)</u>	<u>(750)</u>
	<u><b>982</b></u>	<u>9,260</u>

*Note:*

Borrowing costs of RMB782,000 (six months ended 30 June 2021: RMB750,000) capitalised during the period arose on the general borrowing pool and are calculated by applying a capitalisation rate of 4.2% (six months ended 30 June 2021: 4.5%) to expenditure on qualifying assets.

## 10. PROFIT BEFORE INCOME TAX

Profit before income tax is arrived at after charging:

	<b>Six months ended 30 June</b>	
	<b>2022</b>	2021
	<i>RMB'000</i>	<i>RMB'000</i>
	<b>(Unaudited)</b>	(Unaudited)
Auditors' remuneration	340	340
Cost of inventories sold recognised as expense	1,469,876	1,052,516
Depreciation of property, plant and equipment	66,280	89,673
Depreciation of right-of-use assets	1,458	1,485
Depreciation of investment property	425	424
Impairment of other receivables ( <i>Note</i> )	5,840	17,120
Employee benefit expenses (including directors' remuneration)		
– Wages and salaries	43,779	39,897
– Discretionary bonuses	9,125	10,734
– Retirement benefit scheme contributions	8,877	3,422
	<u>61,781</u>	<u>54,053</u>

*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 2022, because the recoverability of such amount was uncertain.

## 11. INCOME TAX EXPENSES

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
<b>Current tax – PRC</b>		
Current tax	56,579	52,518
Withholding tax on dividends	6,000	3,500
<b>Deferred tax</b>		
Credited for the period	(1,643)	(2,314)
	<u>60,936</u>	<u>53,704</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 2022 and 2021.

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 2022, a final dividend of HK\$10 cents per ordinary share, absorbing a total amount of approximately HK\$62,094,000 in respect of the year ended 31 December 2021, was approved at the Annual General Meeting held on 27 May 2022. 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 2022 (six months ended 30 June 2021: 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	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Earnings for the purposes of basic and diluted earnings per share	<u>147,895</u>	<u>138,459</u>
Weighted average number of ordinary shares for the purposes of basic and diluted earnings per share	<u>620,944,000</u>	<u>620,944,000</u>

No diluted earnings per share is presented as there was no potential ordinary shares in issue during the six months ended 30 June 2022 and 2021.

### 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 2022, additions to property, plant and equipment approximately amounted to RMB35,094,000 (six months ended 30 June 2021: RMB27,252,000).

### 15. INVENTORIES

	At	At
	30 June	31 December
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Audited)
Raw materials	91,944	82,265
Finished goods	21,364	53,799
Parts and spares	<u>3,007</u>	<u>3,183</u>
	<u>116,315</u>	<u>139,247</u>

## 16. TRADE RECEIVABLES

	At 30 June 2022 <i>RMB'000</i> (Unaudited)	At 31 December 2021 <i>RMB'000</i> (Audited)
Trade debtors	<u>14,211</u>	<u>17,741</u>

Included in trade receivables are trade debtors (net of impairment losses) with the following ageing analysis, based on invoice dates, as of the end of reporting period. The balances with trade debtors were neither past due nor impaired as at 30 June 2022.

	At 30 June 2022 <i>RMB'000</i> (Unaudited)	At 31 December 2021 <i>RMB'000</i> (Audited)
Within 3 months	<u>14,211</u>	<u>17,741</u>

## 17. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	At 30 June 2022 <i>RMB'000</i> (Unaudited)	At 31 December 2021 <i>RMB'000</i> (Audited)
Other tax recoverable	63,568	58,834
Prepayments for utilities	–	3,151
Prepayments for equipment	236	3,657
Prepayments to coal suppliers	49,772	61,079
Prepayments to employees	749	573
Other prepayments, deposits and other receivables	<u>7,341</u>	<u>4,085</u>
	<b>121,666</b>	131,379
Less: impairment of other receivables	<u>(5,840)</u>	<u>(17,520)</u>
	<u><b>115,826</b></u>	<u>113,859</u>

Represented by:

	At 30 June 2022 <i>RMB'000</i> (Unaudited)	At 31 December 2021 <i>RMB'000</i> (Audited)
Current portion	115,590	110,202
Non-current portion	<u>236</u>	<u>3,657</u>
	<b><u>115,826</u></b>	<b><u>113,859</u></b>

## 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 2022 <i>RMB'000</i> (Unaudited)	At 31 December 2021 <i>RMB'000</i> (Audited)
0 to 90 days	26,594	32,958
91 to 180 days	1,118	591
181 to 365 days	916	1,758
Over 365 days	<u>19,193</u>	<u>19,073</u>
	<b><u>47,821</u></b>	<b><u>54,380</u></b>

## 19. OTHER PAYABLES AND ACCRUALS

	At 30 June 2022 <i>RMB'000</i> (Unaudited)	At 31 December 2021 <i>RMB'000</i> (Audited)
Accruals	16,944	17,090
Other payables ( <i>Note</i> )	<u>64,275</u>	<u>70,756</u>
	<b><u>81,219</u></b>	<b><u>87,846</u></b>

*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 2022 <i>RMB'000</i> (Unaudited)	At 31 December 2021 <i>RMB'000</i> (Audited)
<b>Current</b>		
Interest bearing		
Secured		
– Short-term bank loans ( <i>Note (i)</i> )	–	76,000
<b>Unsecured</b>		
– Short-term bank loans	–	20,000
	<u>–</u>	<u>96,000</u>

### Notes:

- (i) As at 31 December 2021, the Group's secured short-term bank loans was 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 2022 and 31 December 2021.

## 21. SHARE CAPITAL

	Number of shares '000	Amount US\$	Amount <i>RMB'000</i>
Authorised share capital:			
As at 1 January 2021, 31 December 2021 and 30 June 2022			
Ordinary shares at US\$0.0001 each	<u>500,000,000</u>	<u>50,000,000</u>	<u>340,449</u>
Issued share capital:			
As at 1 January 2021, 31 December 2021 and 30 June 2022	<u>620,944</u>	<u>62,094</u>	<u>392</u>

## 22. RELATED PARTY TRANSACTIONS AND BALANCES

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

### (b) Compensation of key management personnel of the Group

	Six months ended 30 June	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Short-term employee benefits	641	664
Retirement benefit scheme contributions	7	25
	<u>648</u>	<u>689</u>
Total compensation paid to key management personnel	<u>648</u>	<u>689</u>

## 23. CAPITAL COMMITMENTS

	At	At
	30 June	31 December
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Audited)
Commitments for the acquisition of property, plant and equipment: – contracted for but not provided	<u>27,497</u>	<u>18,161</u>

## 24. CONTINGENT LIABILITIES

As at 30 June 2022, neither the Group nor the Company had any significant contingent liabilities (31 December 2021: nil).

## 25. EVENTS AFTER THE END OF THE REPORTING PERIOD

Except as disclosed elsewhere in the interim condensed consolidated financial statements, no significant event took place subsequent to 30 June 2022.

## MANAGEMENT DISCUSSION AND ANALYSIS

### BUSINESS REVIEW

In the first half of 2022, under the influence of the outbreak of the COVID-19 in various parts of the People's Republic of China (the "PRC") and the tension between Russia and Ukraine, the international energy shortages have led to the continuous rise of global energy and food prices. In addition, many countries around the world have restricted urea exports, which drove the demand for fertilizers and chemical products. The complex and ever-changing international situation has led to increasing uncertainties in the market, rising energy prices in the international market, continued tight domestic energy and coal supply, and rising urea prices with frequent fluctuations. As one of the PRC's major urea manufacturers, benefiting from the continuous rise in urea prices in the first half of 2022 and the Group's effective cost control measures, the Group achieved excellent results during the Reporting Period.

During the Reporting Period, the Group recorded an increase in revenue. The Group recorded an increase in profit by approximately RMB8.7 million or 6.1%, from approximately RMB142.3 million for the six months ended 30 June 2021 to approximately RMB151.0 million for the Reporting Period, mainly due to the increase of overall gross profit and the decrease of administrative expenses and finance costs of the Group. The Group's revenue increased by approximately RMB429.9 million or 32.8% from approximately RMB1,295.4 million for the six months ended 30 June 2021 to approximately RMB1,720.3 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 RMB2,567 per tonne, representing an increase of approximately 33.1% from approximately RMB1,928 per tonne for the corresponding period in 2021.

The Group has always adhered to the philosophy of innovative development, and has actively explored new markets and developed new products. The sales of vehicle urea solution, a urea by-product newly developed by the Group in recent years, continued to contribute significantly to the revenue of the Group's urea by-product during the Reporting Period. During the Reporting Period, the average selling price of the Group's vehicle urea solution products was approximately RMB1,698 per tonne, representing an increase of approximately 25.8% from approximately RMB1,350 per tonne for the corresponding period in 2021. However, due to the effect of sales demand, the Group's revenue generated from the sales of vehicle urea solution decreased by approximately RMB7.0 million or 6.3% from approximately RMB110.1 million for the six months ended 30 June 2021 to approximately RMB103.1 million for the Reporting Period.

## OPERATING AND FINANCIAL REVIEW

### Revenue by Products

	Six months ended 30 June 2022 RMB'000	Six months ended 30 June 2021 RMB'000	% Change + / (-)
Urea	1,429,775	1,050,468	36.1%
Vehicle urea solution	103,144	110,115	-6.3%
Methanol	77,704	71,724	8.3%
Other products	109,687	63,100	73.8%
<b>Total</b>	<b>1,720,310</b>	<b>1,295,407</b>	<b>32.8%</b>

#### *Urea*

Revenue from urea increased by approximately RMB379.3 million, or 36.1%, from approximately RMB1,050.4 million for the six months ended 30 June 2021 to approximately RMB1,429.8 million for the Reporting Period, as the average selling price of the Group's urea products increased by approximately RMB638 per tonne, or 33.1%, from approximately RMB1,928 per tonne for the six months ended 30 June 2021 to approximately RMB2,566 per tonne for the Reporting Period, mainly due to the continued growth of the domestic fertilizer and chemical product market during the Reporting Period. The sales volume of urea increased by approximately 2.3% for the Reporting Period as compared to the six months ended 30 June 2021.

### *Vehicle urea solution*

Revenue from vehicle urea solution decreased by approximately RMB7.0 million, or 6.3%, from approximately RMB110.1 million for the six months ended 30 June 2021 to approximately RMB103.1 million for the Reporting Period, mainly due to the decrease of the sales volume because of the outbreak of COVID-19 in various part of the PRC which slowed down the vehicle urea solution demand during the Reporting Period. The average selling price of the Group's vehicle urea solution products increased by approximately RMB348 per tonne, or 25.8%, from approximately RMB1,350 per tonne for the six months ended 30 June 2021 to approximately RMB1,698 per tonne for the Reporting Period.

### *Methanol*

Revenue from methanol increased by approximately RMB6.0 million, or 8.3%, from approximately RMB71.7 million for the six months ended 30 June 2021 to approximately RMB77.7 million for the Reporting Period, as the average selling price of the Group's methanol products increased by approximately RMB267 per tonne, or 16.7%, from approximately RMB1,603 per tonne for the six months ended 30 June 2021 to approximately RMB1,870 per tonne for the Reporting Period, mainly due to the increase in energy prices during the Reporting Period. The sales volume of methanol decreased by approximately 7.1% for the Reporting Period as compared to the six months ended 30 June 2021.

### *Other products*

Other products include carbon dioxide, liquid ammonia, compound fertiliser and LNG. Revenue from other products increased by approximately RMB46.6 million, or 73.8%, from approximately RMB63.1 million for the six months ended 30 June 2021 to approximately RMB109.7 million for the Reporting Period, mainly due to the increase in revenue of the Group's liquid ammonia during the Reporting Period. The increase in revenue of liquid ammonia was due to increase in market demand in the Reporting Period.

## **Gross Profit and Gross Profit Margin**

	Six months ended 30 June 2022		Six months ended 30 June 2021		Change	
	Gross Profit/ (Loss) RMB'000	Margin %	Gross Profit/ (Loss) RMB'000	Margin %	RMB'000	%
Urea	246,779	17.3	222,401	21.2	24,378	11.0
Vehicle urea solution	11,487	11.1	14,095	13.3	(2,608)	(18.5)
Methanol	(38,020)	(48.9)	(14,115)	(19.7)	(23,905)	169.4
Other products	30,188	27.5	20,510	31.6	9,678	48.5
<b>Total</b>	<b>250,434</b>	<b>14.6</b>	<b>242,891</b>	<b>18.8</b>	<b>7,543</b>	<b>3.1</b>

The Group's gross profit increased by approximately RMB7.5 million, or 2.5%, from approximately RMB242.9 million for the six months ended 30 June 2021, to approximately RMB250.4 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 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 lower percentage increase of revenue than the percentage increase of cost of sales during the Reporting Period, the Group's gross profit margin decreased from approximately 18.8% for the six months ended 30 June 2021 to approximately 14.6% for the Reporting Period.

#### *Other income*

Other income decreased by approximately RMB1.1 million, or 28.4%, from approximately RMB4.0 million for the six months ended 30 June 2021, to approximately RMB2.8 million for the Reporting Period, primarily due to decrease in the sales of scrap materials in the Reporting Period.

#### *Other gains and losses, net*

Other losses (net) increased by approximately RMB7.8 million, or 1,088.9%, from approximately RMB0.7 million for the six months ended 30 June 2021, to approximately RMB8.5 million for the Reporting Period, primarily due to exchange loss of RMB to USD for the Reporting Period.

#### *Administrative expenses*

Administrative expenses decreased by approximately RMB9.3 million, or 23.7%, from approximately RMB39.2 million for the six months ended 30 June 2021 to approximately RMB29.9 million for the Reporting Period, primarily due to the decrease in provision for other receivables for the Reporting Period, and such decrease was partially offset by the increase in staff salaries and welfares 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 2021.

#### *Finance costs*

Finance costs decreased by approximately RMB8.3 million, or 89.4%, from approximately RMB9.3 million for the six months ended 30 June 2021 to approximately RMB1.0 million for the Reporting Period, mainly due to the decrease in interest-bearing bank borrowings and therefore interests expense for bank loans decreased.

## *Taxation*

Income tax expenses increased by approximately RMB7.2 million, or 13.5%, from approximately RMB53.7 million for the six months ended 30 June 2021 to approximately RMB60.9 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 RMB8.7 million, or 6.1%, from approximately RMB142.3 million for the six months ended 30 June 2021 to approximately RMB151.0 million for the Reporting Period. This was mainly due to the increase in gross profit of approximately RMB7.5 million, the decrease in administrative expenses of approximately RMB9.1 million and the decrease in finance costs of approximately RMB8.3 million. The increase in profit for the Reporting Period was partially offset by the decrease in other income of approximately RMB1.1 million and the increase in other losses of approximately RMB7.8 million and increase in taxation of approximately RMB7.2 million.

## **CAPITAL STRUCTURE**

As at 30 June 2022, the Group had net assets of approximately RMB1,575.6 million (as at 31 December 2021: approximately RMB1,479.0 million), comprising of non-current assets of approximately RMB1,111.7 million (as at 31 December 2021: approximately RMB1,148.2 million), and current assets of approximately RMB706.1 million (as at 31 December 2021: approximately RMB692.4 million), which primarily consist of cash and bank balances amounted to approximately RMB460.0 million (as at 31 December 2021: approximately RMB425.1 million). Moreover, inventories amounted to approximately RMB116.3 million (as at 31 December 2021: approximately RMB139.2 million) and prepayments, deposits and other receivables amounted to approximately RMB115.6 million (as at 31 December 2021: approximately RMB110.2 million) are also major current assets. The Group recorded a net current asset position of approximately RMB501.8 million as at 30 June 2022 (as at 31 December 2021: approximately RMB369.8 million). Major current liabilities are trade payables amounted to approximately RMB47.8 million (as at 31 December 2021: approximately RMB54.4 million), other payables and accruals amounted to approximately RMB81.2 million (as at 31 December 2021: approximately RMB87.8 million), contract liabilities amounted to approximately RMB27.8 million (as at 31 December 2021: RMB70.8 million) and interest-bearing bank and other borrowings amounted to nil (as at 31 December 2021: approximately RMB96.0 million).

## **LIQUIDITY AND FINANCIAL RESOURCES**

As at 30 June 2022, the Group had cash and bank balances of approximately RMB460.0 million (as at 31 December 2021: approximately RMB425.1 million) and had no interest-bearing bank borrowings (as at 31 December 2021: approximately RMB96.0 million).

As at 30 June 2022, the Group had no current bank and other borrowings of the Group repayable within one year (as at 31 December 2021: approximately RMB96.0 million).

As at 30 June 2022, the gearing ratio for the Group was 0% (as at 31 December 2021: 6.5%), calculated based on bank and other borrowings of nil (as at 31 December 2021: approximately RMB96.0 million) and equity attributable to owners of the Company of approximately RMB1,568.7 million (as at 31 December 2021: approximately RMB1,466.0 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 into the second half of 2022, although the uncertainty of the COVID-19 pandemic still lingers, given the effective control of the outbreak of COVID-19 in the PRC and the continued recovery of the domestic 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 strategy in the PRC brings new challenges and opportunities for the chemical industry, the supply and demand for chemical fertilizers remain uncertain. Green, ecological, and sustainable development have become the common sense of the global development, and even the essential requirements for enterprises to gain competitiveness in the future. Nevertheless, the Group has considerable advantages in energy conservation, emission reduction and green production. It always takes the lead in green development and takes ecological and environmental protection seriously, integrating the green development concept of “lucid waters and lush mountains are invaluable assets” into the whole process of production, operation and management. In the future, the Group will

continue committing to the path of safe, green, high-quality and sustainable development as always, fully leveraging the favorable development platform of the capital market to actively seek new development opportunities, relying on years of deep cultivation in the industry and its own professional knowledge to continuously create new growth drivers, improve its market competitiveness and risk tolerance, so as to achieve long-term sustainable development while promoting the Group's green and low-carbon transformation.

## **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 2022, capital commitment of the Group which had been contracted for but not provided in the financial statements was approximately RMB27.5 million (as at 31 December 2021: RMB18.1 million).

## **CHARGE ON ASSETS**

As at 30 June 2022 and 31 December 2021, 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 2022, the Group did not have any material contingent liabilities (as at 31 December 2021: Nil).

## **EMPLOYEES AND EMOLUMENT POLICY**

As at 30 June 2022, the Group employed a total of 1,286 employees (as at 31 December 2021: 1,285 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 RMB61.8 million (six months ended 30 June 2021: RMB54.1 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 and discussed with the management of the Group on the interim results of the Group for the Reporting Period, including the accounting treatment, principles and practices adopted by the Group, and discussed financial related matters, with no disagreement.

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 Part 2 of 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](http://www.hkex.com.hk) and on the Company's website at [www.dg-chemical.com](http://www.dg-chemical.com). The interim report for the Reporting Period will be despatched to the shareholders of the Company and will be published on the aforesaid websites of the Stock Exchange and the Company in due course in accordance with the Listing Rules.

## **APPRECIATION**

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

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

The PRC, 26 August 2022

*As at the date of this announcement, the Board comprises Mr. WANG Zhihe, Mr. SUN Zushan and Mr. XU Xijiang as executive Directors; Ms. CHEN Jimin as non-executive Director; Ms. LIN Xiuxiang, Mr. LIU Jincheng and Mr. NG Sai Leung as independent non-executive Directors.*