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DONGGUANG CHEMICAL LIMITED
東光化工有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 1702)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2019

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 2019 (the "**Reporting Period**"). The relevant financial figures for the corresponding period in 2018 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 2019

		Six months ended 30 June	
		2019	2018
	Notes	***RMB'000***	*RMB'000*
Revenue	*5*	**1,117,147**	1,113,499
Cost of sales		**(922,412)**	(959,918)
Gross profit		**194,735**	153,581
Other income	*5*	**5,580**	5,406
Other gains or losses, net	*6*	**(1,796)**	(1,515)
Administrative expenses		**(30,571)**	(33,152)
Distribution expenses		**(1,317)**	(1,173)
Finance costs	*8*	**(19,884)**	(28,373)
Profit before income tax	*9*	**146,747**	94,774
Income tax expenses	*10*	**(34,013)**	(29,429)
Profit for the period		**112,734**	65,345
Other comprehensive income that may be reclassified to profit or loss in subsequent periods			
Exchange differences on translation of foreign operation		**(752)**	436
Total comprehensive income for the period attributable to owners of the Company		**111,982**	65,781
		RMB cents	*RMB cents*
Earnings per share for profit attributable to the owners of the Company			
– Basic	*12*	**18.2**	10.5
– Diluted	*12*	**18.2**	10.5

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2019

	Notes	At 30 June 2019 RMB'000	At 31 December 2018 RMB'000
Non-current assets			
Property, plant and equipment	*13*	**1,120,518**	1,172,713
Investment property		**6,314**	6,446
Prepaid land lease payments		**–**	83,582
Right-of-use assets		**112,757**	–
Payment for acquisitions of equipment	*15*	**1,476**	5,365
Restricted bank deposit		**–**	51,032
Total non-current assets		**1,241,065**	1,319,138
Current assets			
Inventories	*14*	**71,694**	92,952
Prepaid land lease payments		**–**	3,172
Prepayments, deposits and other receivables	*15*	**138,408**	106,913
Loan receivable		**–**	90,108
Note receivables		**193**	–
Cash and bank balance		**438,390**	215,493
Total current assets		**648,685**	508,638

	Notes	At 30 June 2019 RMB'000	At 31 December 2018 RMB'000
Current liabilities			
Trade payables	*16*	**66,933**	56,471
Deferred revenue		**3,253**	3,253
Contract liabilities	*5*	**34,139**	30,450
Other payables and accruals	*17*	**48,727**	62,770
Lease liabilities		**146**	–
Short-term bank and other borrowings	*18*	**589,744**	532,900
Income tax payable		**16,026**	16,100
Total current liabilities		**758,968**	701,944
Net current liabilities		**(110,283)**	(193,306)
Non-current liabilities			
Long-term bank and other borrowings	*18*	**–**	68,820
Amount due to a shareholder	*20(a)*	**–**	44,786
Lease liabilities		**29,291**	–
Deferred revenue		**8,891**	10,518
Deferred tax liabilities		**3,372**	3,480
Total non-current liabilities		**41,554**	127,604
Net assets		**1,089,228**	998,228
Capital and reserves attributable to owners of the Company			
Share capital	*19*	**392**	392
Reserves		**1,088,836**	997,836
Total equity		**1,089,228**	998,228

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

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

2. BASIS OF PREPARATION

These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 ("**IAS 34**"), issued by the International Accounting Standards Board ("**IASB**") and the applicable disclosure provisions of Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. These interim condensed consolidated financial statements were authorised for issue on 28 August 2019.

These interim condensed consolidated financial statements have been prepared with the same accounting policies adopted in the 2018 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 2019. This is the first set of the Group's financial statements in which International Financial Reporting Standard 16 "Leases" ("**IFRS 16**") has been adopted. Details of any changes in accounting policies are set out in note 3. Except for the adoption of IFRS 16, the adoption of the new and revised IFRSs have no material effect on these interim condensed consolidated financial statements. The Group has not early adopted any new and revised IFRSs that has been issued but not yet effective in the current accounting period.

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 4.

As at 30 June 2019, the Group's current liabilities exceeded its current assets by RMB110,283,000. The Group may not be able to realise its assets and liabilities in the normal course of business. The directors of the Company have considered the factors listed in the following paragraph when preparing the Group's interim condensed consolidated financial statements.

The Group meets its day-to-day working capital requirements through its bank borrowings. The Group has good credit history and relationship with banks, and will be able to refinance or to consider alternative sources of financing, or to defer dividend payment and uncommitted capital expenditure, where applicable. As at 30 June 2019, the Group had obtained letters of intent from several reputable banks in the PRC in an aggregate amount of RMB275,400,000. As such, the Group has the ability to refinance the existing bank borrowings and no immediate cash flow requirements for settling such outstanding borrowings included in the consolidated statement of financial position. In addition, the directors of the Company have carried out a detailed review of the working capital forecast of the Group. Based on the review, in the opinion of the directors, the Group will have sufficient working capital to finance its operations and remain as a going concern in the foreseeable future. Accordingly, the directors are satisfied that it is appropriate to prepare the interim condensed consolidated financial statements on a going concern basis.

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 2018 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 International Financial Reporting Standards (the "**IFRSs**") and should be read in conjunction with the 2018 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:

- IFRS 16, Leases
- IFRIC-Int 23, Uncertainty over Income Tax Treatments
- Amendments to IFRS 9, Prepayment Features and Negative Compensation
- Amendments to IAS 19, Plan Amendment, Curtailment or Settlement
- Amendments to IAS 28, Long-term Interests in Associates and Joint Ventures
- Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 included in Annual Improvements to IFRSs 2015-2017 Cycle

The impact of the adoption of IFRS 16 "Leases" have been summarised in below. The other new or amended IFRSs that are effective from 1 January 2019 did not have any significant impact on the Group's accounting policies.

(i) Impact of the adoption of IFRS 16

IFRS 16 brings significant changes in accounting treatment for lease accounting, primarily for accounting for lessees. It replaces IAS 17 "Leases" ("**IAS 17**"), IFRIC-Int 4 "Determining whether an Arrangement Contains a Lease" ("**IFRIC-Int 4**"), SIC-Int 15 "Operating Leases-Incentives" and SIC-Int 27 "Evaluating the Substance of Transactions Involving the Legal Form of a Lease". From a lessee's perspective, almost all leases are recognised in the consolidated statement of financial position as a right-of-use assets and a lease liabilities, with the narrow exception to this principle for leases which the underlying assets are of low-value or are determined as short-term leases. From a lessor's perspective, the accounting treatment is substantially unchanged from IAS 17. For details of IFRS 16 regarding its new definition of a lease, its impact on the Group's accounting policies and the transition method adopted by the Group as allowed under IFRS 16, please refer to section (ii) to (v) of this note.

The Group has applied IFRS 16 using the modified retrospective approach and recognised a right-of-use asset at the date of initial application for leases previously classified as an operating lease applying IAS 17. The comparative information presented in 2018 has not been restated and continues to be reported under IAS 17 and related interpretations as allowed by the transition provision in IFRS 16.

The following tables summarised the impact of transition to IFRS 16 on consolidated statement of financial position as of 31 December 2018 to that of 1 January 2019 as follows (increase/(decrease)):

Consolidated statement of financial position as at 1 January 2019

	RMB'000
Non-current assets	
Right-of-use assets	114,121
Prepaid land lease payments – non-current portion	(83,582)
	30,539
Current assets	
Prepaid land lease payments – current portion	(3,172)
Current liabilities	
Other payables and accruals	(1,093)
Lease liabilities – current portion	137
	(956)
Non-current liabilities	
Lease liabilities – non-current portion	28,323

The following reconciliation explains how the operating lease commitments disclosed applying IAS 17 at the end of 31 December 2018 could be reconciled to the lease liabilities at the date of initial application recognised in the consolidated statement of financial position as at 1 January 2019:

Reconciliation of operating lease commitment to lease liabilities

	RMB'000
Operating lease commitment as of 31 December 2018	103,916
Less: short-term lease for which lease term end within 31 December 2019	(70)
Less: future interest expenses	(66,373)
Less: value-added tax included in operating lease commitment	(9,013)
Total lease liabilities as of 1 January 2019	28,460

The weighted average lessee's incremental borrowing rates applied to lease liabilities recognised in the consolidated statement of financial position as at 1 January 2019 were at the range of 6.56% to 7.04%.

(ii) The new definition of a lease

Under IFRS 16, a lease is defined as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration. A contract conveys the right to control the use of an identified asset for a period of time when the customer, throughout the period of use, has both: (a) the right to obtain substantially all of the economic benefits from use of the identified asset and (b) the right to direct the use of the identified asset.

For a contract that contains a lease component and one or more additional lease or non-lease components, a lessee shall allocate the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components, unless the lessee apply the practical expedient which allows the lessee to elect, by class of underlying asset, not to separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component.

The Group has elected not to separate non-lease components and account for all each lease component and any associated non-lease components as a single lease component for all leases.

(iii) Accounting as a lessee

Under IAS 17, a lessee has to classify a lease as an operating lease or a finance lease based on the extent to which risks and rewards incidental to ownership of a lease asset lie with the lessor or the lessee. If a lease is determined as an operating lease, the lessee would recognise the lease payments under the operating lease as an expense over the lease term. The asset under the lease would not be recognised in the statement of financial position of the lessee.

Under IFRS 16, all leases (irrespective of they are operating leases or finance leases) are required to be capitalised in the statement of financial position as right-of-use assets and lease liabilities, but IFRS 16 provides accounting policy choices for an entity to choose not to capitalise (i) leases which are short-term leases and/or (ii) leases for which the underlying asset is of low-value. The Group has elected not to recognise right-of-use assets and lease liabilities for low-value assets (the Group has leased mobile phones, laptop computers and photocopying machines) and leases for which at the commencement date have a lease term less than 12 months. The lease payments associated with those leases have been expensed on straight-line basis over the lease term.

The Group recognised a right-of-use asset and a lease liability at the commencement date of a lease.

Right-of-use asset

The right-of-use asset should be recognised at cost and would comprise: (i) the amount of the initial measurement of the lease liability (see below for the accounting policy to account for lease liability); (ii) any lease payments made at or before the commencement date, less any lease incentives received; (iii) any initial direct costs incurred by the lessee; and (iv) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. The Group measures the right-of-use assets applying a cost model. Under the cost model, the Group measures the right-to-use at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liability.

For the Group, leasehold land and buildings that were held for rental or capital appreciation purpose would continue to be accounted for under IAS 40 and would be carried at cost less accumulated depreciation and any impairment losses. For leasehold land and buildings which is held for own use would continue to be accounted for under IAS 16 and would be stated at cost and are amortised over the period of the lease. The adoption of IFRS 16 therefore does not have any significant impact on these right-of-use assets. Other than the above right-of-use assets, the Group also has leased a number of properties under tenancy agreements which the Group exercises it judgement and determines that it is a separate class of asset apart from the leasehold land and buildings which is held for own use. As a result, the right-of-use asset arising from the properties under tenancy agreements are carried at depreciated cost.

Lease liability

The lease liability should be recognised at the present value of the lease payments that are not paid at the date of commencement of the lease. The lease payments shall be discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Group shall use the Group's incremental borrowing rate.

The following payments for the right-to-use the underlying asset during the lease term that are not paid at the commencement date of the lease are considered to be lease payments: (i) fixed payments less any lease incentives receivable; (ii) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at commencement date; (iii) amounts expected to be payable by the lessee under residual value guarantees; (iv) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and (v) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

Subsequent to the commencement date, a lessee shall measure the lease liability by: (i) increasing the carrying amount to reflect interest on the lease liability; (ii) reducing the carrying amount to reflect the lease payments made; and (iii) remeasuring the carrying amount to reflect any reassessment or lease modifications, for example, a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in substance fixed lease payments or a change in assessment to purchase the underlying asset.

(iv) Accounting as a lessor

As the accounting under IFRS 16 for a lessor is substantially unchanged from the requirements under IAS 17, the adoption of IFRS 16 does not have significant impact on these interim condensed consolidated financial statements.

(v) Transition

As mentioned above, the Group has applied IFRS 16 using the modified retrospective approach and recognised a right-of-use asset at the date of initial application for leases previously classified as an operating lease applying IAS 17. The comparative information presented in 2018 has not been restated and continues to be reported under IAS 17 and related interpretations as allowed by the transition provision in IFRS 16.

The Group has recognised the lease liabilities at the date of 1 January 2019 for leases previously classified as operating leases applying IAS 17 and measured those lease liabilities at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at 1 January 2019.

The Group has elected to recognise all the right-of-use assets at 1 January 2019 for leases previously classified operating leases under IAS 17 as an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the consolidated statement of financial position immediately before 1 January 2019. For all these right-of-use assets, the Group has applied IAS 36 "Impairment of Assets" at 1 January 2019 to assess if there was any impairment as on that date.

The Group has also applied the follow practical expedients: (i) applied a single discount rate to a portfolio of leases with reasonably similar characteristics; (ii) applied the exemption of not to recognise right-of-use assets and lease liabilities for leases with term that will end within 12 months of the date of initial application at 1 January 2019 and accounted for those leases as short-term leases; (iii) exclude the initial direct costs from the measurement of the right-of-use asset at 1 January 2019; and (iv) used hindsight in determining the lease terms if the contracts contain options to extend or terminate the leases.

In addition, the Group has also applied the practical expedients such that: (i) IFRS 16 is applied to all of the Group's lease contracts that were previously identified as leases applying IAS 17 and IFRIC-Int 4; and (ii) not to apply IFRS 16 to contracts that were not previously identified as containing a lease under IAS 17 and IFRIC-Int 4.

4. 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 2018 annual financial statements, except for new significant judgements related to the application of IFRS 16 as described in note 3.

5. 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. Other income is presented as follows:

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
Revenue		
Primary geographical market		
– PRC	**1,117,147**	1,113,499
Major products		
– Sales of urea	**989,371**	962,835
– Sales of methanol	**68,717**	85,188
– Sales of liquid ammonia	**26,891**	35,913
– Sales of carbon dioxide	**20,913**	18,132
– Sales of LNG	**9,869**	11,431
– Sales of compound fertiliser	**1,386**	–
	1,117,147	1,113,499
Timing of revenue recognition		
– At a point in time	**1,117,147**	1,113,499
Other income		
Government grants	**3,927**	1,627
Bank interest income	**1,020**	1,503
Other interest income	**353**	2,143
Others	**280**	133
	5,580	5,406

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

	30 June	1 January
	2019	2019
	RMB'000	*RMB'000*
Contract liabilities	**34,139**	30,450

The contract liabilities mainly relate to the advance consideration received from customers. RMB30,450,000 of the contract liabilities as of 1 January 2019 has been recognised as revenue for the six months ended 30 June 2019 from performance obligation satisfied during the period when the goods were sold.

6. OTHER GAINS OR LOSSES, NET

Other gains or losses, net has been arrived at:

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
Foreign exchange loss	**(1,796)**	(1,515)

7. SEGMENT INFORMATION

Operating segment information

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

8. FINANCE COSTS

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
Interest expense in relation to:		
Bank and other loans wholly repayable within five years	**20,131**	28,982
Loan from a shareholder	**826**	1,619
Lease liabilities	**977**	–
	21,934	30,601
Less: Amount capitalised *(note)*	**(2,050)**	(2,228)
	19,884	28,373

Note:

Borrowing costs of RMB1,511,000 capitalised during the period arose on the general borrowing pool and are calculated by applying a capitalisation rate of 3% (six months ended 30 June 2018: RMB1,480,000) to expenditure on qualifying assets. The remaining borrowing cost of RMB539,000 capitalised during the period arose on the specific borrowing granted for acquisition of property, plant and equipment on 29 December 2017.

9. PROFIT BEFORE INCOME TAX

Profit before income tax is arrived at after charging:

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
Auditors' remuneration	**315**	300
Cost of inventories sold recognised as expense	**922,412**	959,918
Depreciation of property, plant and equipment	**75,142**	72,413
Loss on disposal of property, plant and equipment	**–**	1
Amortisation of prepaid land lease payments	**–**	1,051
Depreciation of right-of-use assets	**1,364**	–
Depreciation of investment property	**132**	132
Employee benefit expenses (including directors' remuneration)		
– Wages and salaries	**35,761**	36,549
– Discretionary bonuses	**10,580**	11,293
– Retirement benefit scheme contributions	**4,423**	4,225
– Share-based payment expenses	**88**	203
	50,852	52,270

10. INCOME TAX EXPENSES

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
Current tax – PRC		
Current tax	**30,621**	27,638
Withholding tax on dividends	**3,500**	1,132
Deferred tax		
(Credited)/charged for the period	**(108)**	659
	34,013	29,429

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 2019 and 2018.

The provision for Mainland China current income tax is based on the statutory rate of 25% of the assessable profit of the PRC subsidiary 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**").

11. DIVIDENDS AND DISTRIBUTION

During the six months ended 30 June 2019, a final dividend of HK$ 4 cents per ordinary share, absorbing a total amount of approximately HK$24,800,000 in respect of the year ended 31 December 2018 (six months ended 30 June 2018: HK$12,400,000) was approved at the Annual General Meeting held on 24 May 2019. 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 2019 (six months ended 30 June 2018: Nil).

12. EARNINGS PER SHARE

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

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
Earnings for the purposes of basic earnings per share	**112,734**	65,345
Effect of dilutive potential ordinary shares:		
Remuneration shares	**–**	–
Earnings for the purposes of diluted earnings per share	**112,734**	65,345
Weighted average number of ordinary shares for the purposes of basic earnings per share	**620,472,000**	620,000,000
Effect of dilutive potential ordinary shares:		
Remuneration shares	**468,382**	888,507
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**620,940,382**	620,888,507

In calculating the diluted earnings per share attributable to the owners of the Company for the six months ended 30 June 2019, there was an adding back of bonus element of remuneration shares. Therefore, the diluted earnings per share attributable to the owners of the Company for the six months ended 30 June 2019 is based on the earnings attributable to the owners of the Company of approximately RMB112,734,000 (six months ended 30 June 2018: RMB65,345,000) and on the weighted average number of 620,940,382 ordinary shares during the six months ended 30 June 2019 (six months ended 30 June 2018: 620,888,507 shares).

13. 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 2019, additions to property, plant and equipment approximately amounted to RMB22,947,000 (six months ended 30 June 2018: RMB43,774,000).

14. INVENTORIES

	At 30 June 2019	At 31 December 2018
	RMB'000	*RMB'000*
Raw materials	**59,667**	84,403
Finished goods	**9,996**	7,072
Parts and spares	**2,031**	1,477
	71,694	92,952

15. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	At 30 June 2019	At 31 December 2018
	RMB'000	*RMB'000*
Prepayments for acquisitions of equipment	**1,476**	5,386
Value-added tax recoverable	**55,502**	72,824
Prepayments for electricity	**29,679**	–
Prepayments for coal purchases	**5,059**	4,411
Other prepayments, deposits and other receivables	**48,168**	29,657
	139,884	112,278
Less: non-current portion	**(1,476)**	(5,365)
	138,408	106,913

16. 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 2019 *RMB'000*	At 31 December 2018 *RMB'000*
0 to 90 days	**41,647**	42,047
91 to 180 days	**12,033**	3,410
181 to 365 days	**5,060**	1,700
Over 365 days	**8,193**	9,314
	66,933	56,471

17. OTHER PAYABLES AND ACCRUALS

	At 30 June 2019 *RMB'000*	At 31 December 2018 *RMB'000*
Accruals	**12,305**	16,574
Other payables	**36,422**	46,196
	48,727	62,770

18. BANK AND OTHER BORROWINGS

	At 30 June 2019 RMB'000	At 31 December 2018 RMB'000
Current		
Interest bearing		
Secured		
– short-term bank loans *(Note (i))*	**288,044**	283,400
– short-term other loan *(Note (i))*	**–**	48,800
– current portion of long-term bank and other loans *(Note (i))*	**24,000**	–
Unsecured		
– short-term bank loans	**207,000**	130,000
– short-term other loans *(Note (iii))*	**70,700**	70,700
	589,744	532,900
Non-current		
Interest bearing		
Secured		
– Long-term bank loans *(Note (i))*	**–**	68,820
	589,744	601,720

At the end of reporting period, total current and non-current bank and other borrowings were scheduled to repay as follows:

	At 30 June 2019 RMB'000	At 31 December 2018 RMB'000
Within one year	**589,744**	532,900
More than one year, but not exceeding two years	**–**	68,820
	589,744	601,720

Notes:

(i) As at 30 June 2019 and 31 December 2018, the Group's secured short-term bank loans, short-term other loan and long-term bank and other loans were secured by certain of the Group's property, plant and equipment, leasehold land, inventories and bank deposits. Short-term secured other loan as at 31 December 2018 was granted from a finance leasing company in the PRC and was fully repaid during the reporting period.

(ii) All of the banking facilities are subject to the fulfilment of covenants relating to certain of the financial position ratios of Hebei Dongguang Chemical Co., Ltd. ("**Hebei Dongguang**"), a wholly owned subsidiary of the Company, as are commonly found in lending arrangements with financial institutions. If Hebei Dongguang was to breach any covenants, the drawn down facilities would become repayable on demand.

(iii) Short-term unsecured other loans represented borrowings granted from two independent third parties in total of RMB70.7 million, which carried fixed interest rate 9% per annum, where repayable within one year. Personal guarantee by a director of the Company has been provided to the respective loans.

(iv) As at 30 June 2019, secured borrowings amounted to RMB97,000,000 (31 December 2018: RMB27,000,000) and unsecured borrowings amounted to RMB70,700,000 (31 December 2018: RMB70,700,000) were guaranteed by directors of the Company, respectively.

19. SHARE CAPITAL

Authorised share capital:	**Number of shares**	**Amount**	**Amount**
	'000	*US$*	*RMB'000*
As at 1 January 2018, 31 December 2018 and 30 June 2019			
Ordinary shares at US$0.0001 each	500,000,000	50,000,000	340,449
Issued share capital:			
As at 1 January 2018	620,000	62,000	392
Issue of remuneration shares	472	47	–
As at 31 December 2018 and 30 June 2019	620,472	62,047	392

20. RELATED PARTY TRANSACTIONS AND BALANCES

(a) Amount due to a shareholder, Bloom Ocean Investments Limited, is unsecured, interest-bearing at 8% per annum. Such amount due was fully repaid on 25 February 2019.

(b) Compensation of key management personnel of the Group

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
Short-term employee benefits	**598**	1,362
Retirement benefit scheme contributions	**100**	13
Share-based payment expenses	**88**	203
Total compensation paid to key management personnel	**786**	1,578

21. CAPITAL COMMITMENTS

	At 30 June 2019 *RMB'000*	At 31 December 2018 *RMB'000*
Commitments for the acquisition of property, plant and equipment:		
– contracted for but not provided	**21,362**	22,031

22. CONTINGENT LIABILITIES

As at 30 June 2019, neither the Group nor the Company had any significant contingent liabilities (31 December 2018: nil).

23. 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 2019.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

In the first half of 2019, despite the complex and volatile global economic environment, the Group's results continued to show notable growth with its significantly higher profit compared to the same period of previous year. During the Reporting Period, we recorded an increase in profit by approximately RMB47.4 million, or 72.5%, from RMB65.3 million for the six months ended 30 June 2018 to approximately RMB112.7 million for the Reporting Period, mainly due to the increase of gross profit and gross profit margin of the Group as a whole and the decrease of finance costs. Our revenue increased by approximately RMB3.6 million, or 0.3%, from approximately RMB1,113.5 million for the six months ended 30 June 2018 to approximately RMB1,117.1 million for the Reporting Period, mainly due to the increase in sales volume and the increases in the average selling price of urea. The average selling price of our urea products was approximately RMB1,721 per tonne during the Reporting Period, representing an increase of approximately 1.6% from RMB1,694 per tonne during the corresponding period in 2018. As a result of (i) the increase in our revenue; and (ii) the decrease in our cost of sales mainly due to the decrease in raw materials costs during the Reporting Period, our gross profit and gross profit margin also increased during the Reporting Period.

In addition, we are pleased to report that following the award of the title of "advanced unit of energy saving and emission reduction in nitrogen fertilizer and methanol industry during the "Twelfth Five-Year Plan" period", issued by China Nitrogen Fertilizer Industry Association (中國氮肥工業協會) in July 2016, Hebei Dongguang Chemical Co.,Ltd ("**Hebei Dongguang**"), a subsidiary of the Group, was also awarded the "advanced unit of energy saving and emission reduction in nitrogen fertilizer and methanol industry in 2018" in July and was commended by the China Nitrogen Fertilizer Industry Association. The Group has been awarded the title of advanced unit of energy saving and emission reduction in nitrogen fertilizer and methanol industry for four consecutive years. Furthermore, Hebei Dongguang has also been included in the "List of Green Manufacturers" and selected as the National Green Factory in July 2019 released by the Ministry of Industry and Information Technology, which further demonstrated the social recognition of our effort in environmental protection and enhance our development of green industry in order to drive economic development.

OPERATING AND FINANCIAL REVIEW

Revenue by Products

	Six months ended 30 June 2019 *RMB'000*	Six months ended 30 June 2018 *RMB'000*	% Change +/(-)
Urea	**989,371**	962,835	2.8
Methanol	**68,717**	85,188	(19.3)
Other products	**59,059**	65,476	(9.8)
Total	**1,117,147**	1,113,499	**0.3**

Urea

Revenues from urea increased by approximately RMB26.6 million, or 2.8%, from approximately RMB962.8 million for the six months ended 30 June 2018 to approximately RMB989.4 million for the Reporting Period, as (i) the sales volume of urea increased during the Reporting Period; and (ii) the average selling price of our urea increased by approximately RMB27 per tonne, or 1.6%, from approximately RMB1,694 per tonne for the six months ended 30 June 2018 to approximately RMB1,721 per tonne for the Reporting Period.

Methanol

Revenues from methanol decreased by approximately RMB16.5 million, or 19.3%, from approximately RMB85.2 million for the six months ended 30 June 2018 to approximately RMB68.7 million for the Reporting Period, as the average selling price of our methanol decreased by approximately RMB394 per tonne, or 19.6%, from approximately RMB2,008 per tonne for the six months ended 30 June 2018 to approximately RMB1,614 per tonne for the Reporting Period.

Gross Profit and Gross Profit Margin

	Six months ended 30 June 2019		Six months ended 30 June 2018			
	Gross Profit/ (Loss)	Margin	Gross Profit	Margin	Gross Profit Change	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Urea	**177,120**	17.9	123,870	12.9	53,250	43.0
Methanol	**(7,459)**	(10.9)	5,642	6.6	(13,101)	(232.2)
Other products	**25,074**	42.4	24,069	36.8	1,005	4.2
Total	**194,735**	17.4	153,581	13.8	41,154	26.8

Our gross profit increased by approximately RMB41.2 million, or 26.8%, from approximately RMB153.5 million for the six months ended 30 June 2018, to approximately RMB194.7 million for the Reporting Period, primarily due to the increase in our revenue resulting from the increase in our sales volume and average selling price of urea while our cost of sales decreased mainly due to the decrease in raw materials costs during the Reporting Period. As a result, our gross profit margin increased from approximately 13.8% for the six months ended 30 June 2018 to approximately 17.4% for the Reporting Period.

Other Income

Other income increased by approximately RMB0.2 million, or 3.2%, from approximately RMB5.4 million for the six months ended 30 June 2018, to approximately RMB5.6 million for the Reporting Period, primarily due to an increase in our government grant income recognised in the Reporting Period.

Other gains and losses, net

Other losses (net) increased by approximately RMB0.3 million, or 18.5%, from approximately RMB1.5 million for the six months ended 30 June 2018, to approximately RMB1.8 million for the Reporting Period, primarily due to foreign exchange loss of RMB to HK$.

Administrative expenses

Administrative expenses decreased by approximately RMB2.6 million, or 8.0%, from approximately RMB33.2 million for the six months ended 30 June 2018 to approximately RMB30.6 million for the Reporting Period, primarily due to the decrease in director remuneration.

Distribution expenses

There was no material fluctuation for distribution expenses between the Reporting Period and the six months ended 30 June 2018.

Finance costs

Finance costs decreased by approximately RMB8.5 million, or 29.9%, from approximately RMB28.4 million for the six months ended 30 June 2018 to approximately RMB19.9 million for the Reporting Period, primarily due to general decrease in the level of borrowings.

Taxation

Income tax expenses increased by approximately RMB4.6 million, or 15.7%, from approximately RMB29.4 million for the six months ended 30 June 2018 to approximately RMB34.0 million for the Reporting Period primarily due to the significant increase in profit before income tax.

Profit for the period

Profit for the period increased by approximately RMB47.4 million or 72.6% from approximately RMB65.3 million for the six months ended 30 June 2018 to approximately RMB112.7 million for the Reporting Period. This was mainly due to the increase in gross profit of approximately RMB41.2 million, increase in other income of approximately RMB0.2 million and decrease in administrative expenses and finance costs of approximately RMB2.6 million and RMB8.5 million respectively during the Reporting Period. The increase in profit for the Reporting Period was partially offset by increase in other losses (net) of approximately RMB0.3 million and the increase in income tax expenses of approximately RMB4.6 million.

CAPITAL STRUCTURE

As at 30 June 2019, the Group had net assets of approximately RMB1,089.2 million (as at 31 December 2018: approximately RMB998.2 million), comprising of non-current assets of approximately RMB1,241.1 million (as at 31 December 2018: approximately RMB1,319.1 million), and current assets of approximately RMB648.7 million (as at 31 December 2018: approximately RMB508.6 million), which primarily consist of cash and bank balances amounted to approximately RMB438.4 million (as at 31 December 2018: approximately RMB215.5 million). Moreover, inventories amounted to approximately RMB71.7 million (as at 31 December 2018: approximately RMB93.0 million) and prepayments, deposits and other receivables amounted to approximately RMB138.4 million (as at 31 December 2018: approximately RMB106.9 million) are also major current assets. The Group recorded a net current liability position of approximately RMB110.3 million as at 30 June 2019 (as at 31 December 2018: approximately RMB193.3 million). Major current liabilities are trade payables amounted to approximately RMB66.9 million (as at 31 December 2018: approximately RMB56.5 million), other payables and accruals amounted to approximately RMB48.7 million (as at 31 December 2018: approximately RMB62.8 million), contract liabilities amounted to approximately RMB34.1 million (as at 31 December 2018: RMB30.5 million) and interest-bearing bank and other borrowings amounted to RMB589.7 million (as at 31 December 2018: approximately RMB532.9 million).

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2019, the Group had cash and bank balances of approximately RMB438.4 million (as at 31 December 2018: approximately RMB215.5 million) and had total interest-bearing bank borrowings of approximately RMB589.7 million (as at 31 December 2018: approximately RMB532.9 million). The Group's interest-bearing bank borrowings bear interests ranging from 4.21% to 9.00% (as at 31 December 2018: 3.30% to 9.00%) per annum.

As at 30 June 2019, total current and non-current bank and other borrowings of the Group repayable within one year and after one year were approximately RMB589.7 million and nil respectively (as at 31 December 2018: approximately RMB532.9 million and RMB68.8 million respectively).

As at 30 June 2019, the gearing ratio for the Group was 0.14 (as at 31 December 2018: 0.43), based on net debt of approximately RMB151.3 million (as at 31 December 2018: approximately RMB431.0 million) and equity attributable to owners of approximately RMB1,089.2 million (as at 31 December 2018: approximately RMB998.2 million). The Group would serve its debts primarily by cash flow generated from its operation, seeking renewal of the outstanding bank borrowings and new banking facilities and exploring the availability of alternative source of financing. The management is confident that the Group has adequate financial resources to meet its future debt repayment and support its working capital requirement and future expansion.

PROSPECTS

Looking ahead, green industry is one of the important activities that can drive the economic growth of China. Over the recent years, China has actively implemented various plans to foster the development of green industry. In this regard, the Group has also actively increased the investment in energy-efficient, environmentally-friendly treatment facilities and used new technology, equipment and materials, and has also upgraded the less advanced and high energy consumption equipments. The Group will continue to incorporate energy conservation and emission reduction into the agenda. By exploring potential within the enterprise, reducing the production costs and increasing the efficiency, the Group will further strengthen the management of energy conservation to achieve the green development of enterprises.

The Group will continue to consolidate and develop its existing market and industry position and do its best to increase shareholder value. And the Group will continue to promote its growth strategies, including increasing production capacity, improving production quality and efficiency, expanding the value chain to urea-related products, strengthening relationships with major customers, and expanding customer base, while seeking to establish strategic relationships and identify acquisition opportunities. The Group will develop the company mission as "developing enterprises, creating values, benefiting employees and contributing to the society", to contribute more benefits to the economy and society.

FOREIGN CURRENCY EXPOSURE

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

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

CAPITAL COMMITMENTS

As at 30 June 2019, capital commitment of the Group which had been contracted for but not provided in the financial statements was approximately RMB21.4 million (as at 31 December 2018: RMB22.0 million).

CHARGE ON ASSETS

As at 30 June 2019 and 31 December 2018, the Group's secured short-term bank loans, short-term other loan and long-term bank and other loans were secured by certain of the Group's property, plant and equipment, leasehold land, inventories and bank deposits. Short-term secured other loan as at 31 December 2018 was granted from a finance leasing company in the PRC and was fully repaid during the Reporting Period.

CONTINGENT LIABILITIES

As at 30 June 2019, the Group did not have any material contingent liabilities (as at 31 December 2018: Nil).

EMPLOYEES AND EMOLUMENT POLICY

As at 30 June 2019, the Group employed a total of 1,268 employees (as at 31 December 2018: 1,269 employees). The Group's emolument policy is formulated based on industry practices and performance of individual employees. During the Reporting Period, the total staff costs (including directors' emoluments) amounted to approximately RMB50.9 million (six months ended 30 June 2018: RMB52.3 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.

UPDATE ON THE USE OF PROCEEDS

As announced by the Company on 24 August 2018, the Board resolved to change the proposed use of the unutilized net proceeds from the global offering of the shares of the Company which was intended to be used for the purchase of production equipment and the expansion of the additional production facility in the PRC for the manufacturing of large granular urea products to the purchase of new equipment and the construction of the new energy saving power generating facility. This new facility utilises and transforms the steam and heat generated during the Group's production process for energy saving and power generation purposes. Please refer to the announcement of the Company dated 24 August 2018 for details.

As at 30 June 2019, the net proceeds had been applied for as follows:

	Actual net proceeds *HK$' million*	**Amount utilised as at 30 June 2019** *HK$' million*	**Unutilised net proceeds as at 30 June 2019** *HK$' million*
Purchase of new equipment and the construction of new energy saving power generating facility	69.3	45.2	24.1
Purchase, construct and install new environmental protection facility	52.7	52.7	–
Repay part of two outstanding term loans to two independent third parties	14.8	14.8	–
Working capital and general corporate purposes	10.9	10.9	–
	147.7	123.6	24.1

As at the date of this announcement, save as disclosed above, the Company did not anticipate any further change to the proposed use of proceeds. The remaining outstanding net proceeds as at 30 June 2019 are expected to be fully utilised on or before 31 December 2019.

EVENTS AFTER THE REPORTING PERIOD

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

MATERIAL ACQUISITIONS AND DISPOSAL OF SUBSIDIARIES AND ASSOCIATED COMPANIES

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

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

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

INTERIM DIVIDEND

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

AUDIT COMMITTEE AND REVIEW OF INTERIM RESULTS

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

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

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

CORPORATE GOVERNANCE

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

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

APPRECIATION

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

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

The PRC, 28 August 2019

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