

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited 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)

DISCLOSEABLE TRANSACTION DEEMED DISPOSAL OF EQUITY INTEREST IN XINJIANG XINJI

CAPITAL CONTRIBUTION AGREEMENT

On 22 April 2021, Dongguang Chemical, Xinjiang Xinji and the Investor entered into the Capital Contribution Agreement, pursuant to which, among others, the Investor agreed to make capital contribution of RMB96,080,000 in cash to Xinjiang Xinji.

LISTING RULES IMPLICATION

As at the date of this announcement, Xinjiang Xinji is wholly owned by Dongguang Chemical and its registered capital is RMB100,000,000. Upon completion of the Capital Contribution, the registered capital of Xinjiang Xinji will be increased to RMB196,080,000 and the equity interest of Dongguang Chemical and the Investor in Xinjiang Xinji will be 51% and 49% respectively. The dilution of the Company's shareholding interest in Xinjiang Xinji will constitute a deemed disposal by the Company pursuant to Rule 14.29 of the Listing Rules.

As the highest percentage ratio applicable for the Deemed Disposal is above 5% but below 25%, the transaction contemplated under the Capital Contribution Agreement constitutes a discloseable transaction for the Company and is therefore subject to the reporting and announcement requirements, but exempt from the circular and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

INTRODUCTION

The Board is pleased to announce that on 22 April 2021, Dongguang Chemical, Xinjiang Xinji and the Investor entered into the Capital Contribution Agreement, pursuant to which, among others, the Investor agreed to make capital contribution of RMB96,080,000 in cash to Xinjiang Xinji. As at the date of this announcement, Xinjiang Xinji is wholly owned by Dongguang Chemical and its registered capital is RMB100,000,000. Dongguang Chemical has contributed capital of RMB10,000,000 to Xinjiang Xinji as at the date of this announcement.

Upon completion of the Capital Contribution, the registered capital of Xinjiang Xinji will be increased to RMB196,080,000 and the equity interest of Dongguang Chemical and the Investor in Xinjiang Xinji will be 51% and 49% respectively.

Principal terms of the Capital Contribution Agreement are as follows:

THE CAPITAL CONTRIBUTION AGREEMENT

Date: 22 April 2021

Parties:

- (i) Dongguang Chemical;
- (ii) Xinjiang Xinji; and
- (iii) The Investor

To the best of the Directors' knowledge, information and belief, and having made all reasonable enquiries, the Investor and its ultimate beneficial owner(s) are Independent Third Parties.

Subject matter: The Investor agreed to make capital contribution of RMB96,080,000 in cash to Xinjiang Xinji. As at the date of this announcement, Xinjiang Xinji is wholly owned by Dongguang Chemical and its registered capital is RMB100,000,000.

Upon completion of the Capital Contribution, the registered capital of Xinjiang Xinji will be increased to RMB196,080,000 and the equity interest of Dongguang Chemical and the Investor in Xinjiang Xinji will be 51% and 49% respectively.

Consideration:

The Capital Contribution will be payable by the Investor in cash by installments. The first installment of the Capital Contribution of RMB17,150,000 shall be paid by the Investor within 15 business days from the date of the Capital Contribution Agreement provided that all conditions precedent below are fulfilled while the timing and amount of the remaining installments will be agreed between Dongguang Chemical and the Investor according to the business needs of Xinjiang Xinji.

An additional capital of RMB7,850,000 in cash shall be paid by Dongguang Chemical to Xinjiang Xinji within 15 business days from the date of the Capital Contribution Agreement provided that all conditions precedent below are fulfilled.

The Consideration was determined after arm's length negotiation between the parties to the Capital Contribution Agreement with reference to the registered capital of Xinjiang Xinji, the equity interest to be acquired by the Investor and the first phase of development plan of the construction of new chemical production facilities.

Conditions Precedent:

The Capital Contribution is conditional upon the satisfaction of the following conditions:

- (1) Xinjiang Xinji has not changed its business nature and continues to legally hold the relevant business license up to and inclusive of the Completion Date;
- (2) Xinjiang Xinji has not sold, transferred, leased, mortgaged, pledged or otherwise disposed of any of its assets up to and inclusive of the Completion Date;
- (3) Xinjiang Xinji has not assumed any debts or responsibilities other than normal business transactions up to and inclusive of the Completion Date; and

- (4) Xinjiang Xinji's operations, assets, equity and other conditions disclosed to the Investor by Xinjiang Xinji and Dongguang Chemical has not undergone any changes up to and inclusive of the Completion Date or such changes (if any) have been confirmed and waived by the Investor.

Completion:

Completion will take place upon payment by the Investor of the first installment of the Consideration of RMB17,150,000 within 15 business days from the date of the Capital Contribution Agreement provided that all conditions precedent are fulfilled.

Financial effect of the deemed disposal on the Group and the application of the fund from the Capital Contribution

Upon completion of the Capital Contribution, Xinjiang Xinji will be owned as to approximately 51% by Dongguang Chemical and 49% by the Investor. Xinjiang Xinji will become an indirect non-wholly-owned subsidiary of the Company and its financial results will continue to be consolidated in that of the Company. No gain or loss is expected to be accrued to the Group as a result of the transaction under the Capital Contribution Agreement.

Xinjiang Xinji intends to utilize the proceeds from the Capital Contribution in the planning and design of the construction of new chemical production facilities for new water soluble compound fertilizer (designed annual production capacity of 1,500,000 tons), Diesel exhaust fluid (designed annual production capacity of 300,000 tons) and melamine (designed annual production capacity of 120,000 tons) and as general working capital.

Financial information on Xinjiang Xinji

The following are the audited financial information on Xinjiang Xinji for the two years ended 31 December 2019 and 2020:

	For the year ended	
	31 December	
	2019	2020
	<i>(RMB'000)</i>	<i>(RMB'000)</i>
	<i>(Note)</i>	
Loss before tax	N/A	96
Loss after tax	N/A	96
Net assets value	N/A	9,904

Note: Xinjiang Xinji was established in the PRC in 2020

INFORMATION ON THE GROUP AND THE INVESTOR AND REASONS FOR AND BENEFITS OF ENTERING INTO THE CAPITAL CONTRIBUTION AGREEMENT

The Group is one of the major coal-based urea producers with annualised designed production capacity of approximately 1.1 million tonnes of urea in the PRC. The Group is principally engaged in manufacturing and selling urea and other by products such as methanol, liquid ammonia and carbon dioxide in the PRC. As at the date of this announcement, Xinjiang Xinji is wholly owned by Dongguang Chemical and has not yet commenced business.

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

The Directors are of the view that the Capital Contribution can bring additional capital into the Group and the Group may leverage on the resources of the Investor in expanding the production capacity and developing new products for the Group. The Directors believe that the terms of the Capital Contribution Agreement are fair and reasonable and the transaction contemplated under the Capital Contribution Agreement is in the interests of the Company and its Shareholders as a whole.

LISTING RULES IMPLICATIONS

Upon completion of the Capital Contribution, the registered capital of Xinjiang Xinji will be increased to RMB196,080,000 and the equity interest of Dongguang Chemical and the Investor in Xinjiang Xinji will be 51% and 49% respectively. The dilution of the Company's shareholding interest in Xinjiang Xinji will constitute a deemed disposal by the Company pursuant to Rule 14.29 of the Listing Rules.

As the highest percentage ratio applicable for the Deemed Disposal is above 5% but below 25%, the transaction contemplated under the Capital Contribution Agreement constitutes a discloseable transaction for the Company and is therefore subject to the reporting and announcement requirements, but exempt from the circular and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

DEFINITIONS

“Board”	the board of Director(s)
“Capital Contribution”	the capital contribution of RMB96,080,000 in cash by the Investor to Xinjiang Xinji pursuant to the Capital Contribution Agreement
“Capital Contribution Agreement”	the agreement dated 22 April 2021 entered into between Dongguang Chemical, Xinjiang Xinji and the Investor in relation to the Capital Contribution
“Company”	Dongguang Chemical Limited 東光化工有限公司, a company incorporated in the Cayman Islands with limited liability and the issued Shares of which are listed on the Stock Exchange
“Completion Date”	date of completion of the Deemed Disposal
“connected person”	has the meaning ascribed to it under the Listing Rules
“Deemed Disposal”	the deemed disposal through the dilution of interest in Xinjiang Xinji of the Company from 100% to 51% as a result of the Capital Contribution by the Investor pursuant to the Capital Contribution Agreement
“Director(s)”	the director(s) of the Company
“Dongguang Chemical”	Hebei Dongguang Chemical Co., Ltd* (河北省東光化工有限公司), an indirect wholly owned subsidiary of the Company established under the laws of the PRC
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Third Party”	an entity which is a third party independent of the Company and its connected person(s)

“Investor”	Xinjiang Lvyuan State-owned Assets Management Group Co., Ltd.* (新疆綠原國有資產經營集團有限公司), a company incorporated in the PRC with limited liability
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“PRC”	the People’s Republic of China excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan for the purposes of this announcement
“RMB”	Renminbi, the lawful currency of the PRC
“Shareholder(s)”	shareholder(s) of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Xinjiang Xinji”	Xinjiang Xinji Energy Chemical Co., Ltd.* (新疆新冀能源化工有限公司), a subsidiary of the Company established in the PRC
“%”	per cent.

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

The PRC, 22 April 2021

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

* for identification purpose only