



**DONGGUANG CHEMICAL LIMITED**

**東光化工有限公司**

(incorporated in the Cayman Islands with limited liability)

Stock Code : 1702



**2022**  
**INTERIM REPORT**





## CONTENTS

Corporate Information	2
Management Discussion and Analysis	4
Other Information	12
Report on Review of Interim Condensed Consolidated Financial Statements	17
Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income	19
Condensed Consolidated Statement of Financial Position	20
Condensed Consolidated Statement of Changes in Equity	22
Condensed Consolidated Statement of Cash Flows	24
Notes to the Interim Condensed Consolidated Financial Statements	26



## CORPORATE INFORMATION

### BOARD OF DIRECTORS

#### Executive Directors

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

#### Non-executive Director

Ms. Chen Jimin

#### Independent non-executive Directors

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

### BOARD COMMITTEES

#### Audit Committee

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

#### Remuneration Committee

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

#### Nomination Committee

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

#### Corporate Governance Committee

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

### COMPANY SECRETARY

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

### AUTHORISED REPRESENTATIVES

(for the purpose of the Listing Rules)

Mr. Wang Zhihe  
Mr. Cheng Shing Hay

### COMPANY'S LEGAL ADVISER AS TO HONG KONG LAW

Chiu & Partners

### AUDITOR

BDO Limited  
*Certified Public Accountants*

### REGISTERED OFFICE

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

### HEADQUARTERS IN THE PRC

Chengdong Industrial Zone  
Dongguang County  
Hebei Province  
The PRC



## CORPORATE INFORMATION (CONTINUED)

### PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

### SHARE REGISTRAR AND TRANSFER OFFICE

#### Principal Share Registrar and Transfer Office in the Cayman Islands

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

#### Hong Kong Branch Share Registrar and Transfer Office

Tricor Investor Services Limited  
17/F, Far East Finance Centre  
16 Harcourt Road  
Hong Kong

### PRINCIPAL BANKERS

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

### STOCK CODE

1702

### COMPANY WEBSITE

[www.dg-chemical.com](http://www.dg-chemical.com)

### 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 six months ended 30 June 2022 (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.

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)



### 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.

## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### OPERATING AND FINANCIAL REVIEW (CONTINUED)

#### Revenue by Products (Continued)

##### 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>



## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### OPERATING AND FINANCIAL REVIEW (CONTINUED)

#### Gross Profit and Gross Profit Margin (Continued)

The Group's gross profit increased by approximately RMB7.5 million, or 3.1%, 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 RMB1.2 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.





## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### OPERATING AND FINANCIAL REVIEW (CONTINUED)

#### Gross Profit and Gross Profit Margin (Continued)

##### 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 RMB9.3 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.



## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### 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.



## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

### 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).



## **MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)**

### **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.



## OTHER INFORMATION

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

As at 30 June 2022, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong (the "SFO"), as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), were as follows:

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

\* The percentage represents the number of shares involved divided by the number of the Company's issued shares as at 30 June 2022.

#### Notes:

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

Save as disclosed above, as at 30 June 2022, none of the Directors or chief executive of the Company had any interests and short positions in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO), as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.



## OTHER INFORMATION (CONTINUED)

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

As at 30 June 2022, so far as is known to the Directors, the following corporations or persons (other than a Director or the chief executive of the Company) had an interest or short position in the Shares and underlying Shares as recorded in the register required to be kept by the Company under Section 336 of the SFO:

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

\* The percentage represents the number of shares involved divided by the number of the Company's issued shares as at 30 June 2022.

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



## OTHER INFORMATION (CONTINUED)

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

*Notes:*

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

Save as disclosed above, as at 30 June 2022, other than the Directors and the chief executive of the Company whose interests are set out in the paragraph headed "Directors' and chief executive's interests and short positions in the shares, underlying shares and debentures of the Company or any associated corporation" above, no person had interest or short position in the Shares or underlying Shares which were required to be recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

### SHARE OPTION SCHEME

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



## OTHER INFORMATION (CONTINUED)

### EVENTS AFTER THE REPORTING PERIOD

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

### MATERIAL ACQUISITIONS AND DISPOSAL OF SUBSIDIARIES AND ASSOCIATED COMPANIES

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

### 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 this report and 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.





## OTHER INFORMATION (CONTINUED)

### CORPORATE GOVERNANCE

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

### 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

# REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS



Tel : +852 2218 8288  
Fax: +852 2815 2239  
www.bdo.com.hk

25<sup>th</sup> Floor Wing On Centre  
111 Connaught Road Central  
Hong Kong

電話：+852 2218 8288  
傳真：+852 2815 2239  
www.bdo.com.hk

香港干諾道中111號  
永安中心25樓

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

## INTRODUCTION

We have reviewed the interim condensed consolidated financial statements set out on pages 19 to 40 which comprise the condensed consolidated statement of financial position of Dongguang Chemical Limited (the “**Company**”) and its subsidiaries (collectively referred to as the “**Group**”) as of 30 June 2022 and the related condensed consolidated statement of profit or loss and other comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes (the “**interim condensed consolidated financial statements**”). The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 “Interim Financial Reporting” (“**IAS 34**”). The directors are responsible for the preparation and presentation of the interim condensed consolidated financial statements in accordance with IAS 34. Our responsibility is to express a conclusion on the interim condensed consolidated financial statements based on our review. This report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

## SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.



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

### CONCLUSION

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

#### **BDO Limited**

*Certified Public Accountants*

#### **Ho Yee Man**

Practising Certificate Number: P07395

Hong Kong

26 August 2022

# CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2022

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



**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
AS AT 30 JUNE 2022

		<b>At</b>	<b>At</b>
		<b>30 June</b>	<b>31 December</b>
		<b>2022</b>	<b>2021</b>
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
		(Unaudited)	(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>		<u>1,111,688</u>	<u>1,148,178</u>
<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>		<u>706,100</u>	<u>692,351</u>
<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
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>		<u>204,343</u>	<u>322,596</u>
<b>Net current assets</b>		<u>501,757</u>	<u>369,755</u>



## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

AS AT 30 JUNE 2022

	<b>At 30 June 2022</b>	<b>At 31 December 2021</b>
<i>Notes</i>	<i>RMB'000</i> (Unaudited)	<i>RMB'000</i> (Audited)
<b>Non-current liabilities</b>		
Lease liabilities	29,191	28,211
Deferred revenue	3,582	3,995
Deferred tax liabilities	5,073	6,716
	<hr/>	<hr/>
<b>Total non-current liabilities</b>	37,846	38,922
	<hr/>	<hr/>
<b>Net assets</b>	1,575,599	1,479,011
	<hr/>	<hr/>
<b>Capital and reserves attributable to owners of the Company</b>		
Share capital	21 392	392
Reserves	1,568,338	1,465,565
	<hr/>	<hr/>
Equity attributable to owners of the Company	1,568,730	1,465,957
	<hr/>	<hr/>
<b>Non-controlling interests</b>	6,869	13,054
	<hr/>	<hr/>
<b>Total equity</b>	1,575,599	1,479,011
	<hr/>	<hr/>

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 30 JUNE 2022

	Share capital RMB'000	Share premium RMB'000	Specific reserve RMB'000	Merger reserve RMB'000	Statutory reserve RMB'000	Foreign currency translation reserve RMB'000	Retained earnings RMB'000	Attributable to owners of the Company RMB'000	Non- controlling interest RMB'000	Total equity RMB'000
At 1 January 2021	392	738,848	56,581	(559,842)	96,407	(6,444)	904,965	1,230,907	3,169	1,234,076
Profit for the period	-	-	-	-	-	-	138,459	138,459	3,879	142,338
Exchange differences arising on translation of foreign operations	-	-	-	-	-	(2,097)	-	(2,097)	-	(2,097)
Total comprehensive income for the period	-	-	-	-	-	(2,097)	138,459	136,362	3,879	140,241
Capital contribution from non-controlling interest to a subsidiary	-	-	-	-	-	-	-	-	86,472	86,472
Change in ownership in interest in a subsidiary without change of control	-	-	-	-	-	-	94	94	(94)	-
Dividends approved in respect of the previous year	-	-	-	-	-	-	(25,843)	(25,843)	-	(25,843)
Appropriation of reserve	-	-	8,587	-	1,149	-	(9,736)	-	-	-
Utilisation of specific reserve for the period	-	-	(6,520)	-	-	-	6,520	-	-	-
At 30 June 2021	392	738,848	58,648	(559,842)	97,556	(8,541)	1,014,459	1,341,520	93,426	1,434,946



## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2022

	Share capital RMB'000	Share premium RMB'000	Specific reserve RMB'000	Merger reserve RMB'000	Statutory reserve RMB'000	Foreign currency translation reserve RMB'000	Retained earnings RMB'000	Attributable to owners of the Company RMB'000	Non- controlling interest RMB'000	Total equity RMB'000
At 1 January 2022	392	738,848	56,237	(559,842)	98,409	(11,632)	1,143,545	1,465,957	13,054	1,479,011
Profit for the period	-	-	-	-	-	-	147,895	147,895	3,125	151,020
Exchange differences arising on translation of foreign operations	-	-	-	-	-	6,343	-	6,343	-	6,343
Total comprehensive income for the period	-	-	-	-	-	6,343	147,895	154,238	3,125	157,363
Appropriation of reserve	-	-	7,198	-	-	-	(7,198)	-	-	-
Dividends approved in respect of the previous year	-	-	-	-	-	-	(51,465)	(51,465)	-	(51,465)
Payment of dividend to a subsidiary's non- controlling interest	-	-	-	-	-	-	-	-	(9,310)	(9,310)
Utilisation of specific reserve for the period	-	-	(3,735)	-	-	-	3,735	-	-	-
At 30 June 2022	392	738,848	59,700	(559,842)	98,409	(5,289)	1,236,512	1,568,730	6,869	1,575,599





**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**  
**FOR THE SIX MONTHS ENDED 30 JUNE 2022**

	<b>Six months ended 30 June</b>	
	<b>2022</b>	<b>2021</b>
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
<b>Operating activities</b>		
Profit before income tax	211,956	196,042
Adjustments for:		
Depreciation of right-of-use assets	1,458	1,485
Depreciation of investment property	425	424
Depreciation of property, plant and equipment	66,280	89,673
(Gain)/loss on investment recognised at fair value through profit or loss	(330)	705
Fair value loss on financial liabilities at fair value through profit or loss	–	1,741
Impairment of other receivables	5,840	17,120
Government grant income	(413)	(1,625)
Interest income	(1,935)	(1,186)
Interest expense	982	9,260
	<hr/>	<hr/>
Operating profit before working capital changes	284,263	313,639
Decrease in inventories	22,932	29,497
Decrease/(increase) in trade receivables	3,530	(15,385)
Decrease/(increase) in notes receivables	100	(900)
Increase in prepayments, deposits and other receivables	(11,228)	(85,180)
(Decrease)/increase in trade payables	(6,559)	19,596
Decrease in contract liabilities	(43,040)	(5,483)
(Decrease)/increase in other payables and accruals	(6,627)	4,772
	<hr/>	<hr/>
Cash generated from operations	243,371	260,556
Investment income received/(loss paid)	330	(705)
Income tax paid	(28,608)	(37,627)
	<hr/>	<hr/>
<b>Net cash generated from operating activities</b>	<b>215,093</b>	<b>222,224</b>

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2022



	<b>Six months ended 30 June</b>	
	<b>2022</b>	<b>2021</b>
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
<b>Investing activities</b>		
Purchase of property, plant and equipment	(34,312)	(26,501)
Decrease/(increase) in advance of prepayments for acquisitions of equipment	3,421	(2,616)
Deposits paid for future contracts	–	(1,267)
Interest received	1,935	1,186
	<hr/>	<hr/>
<b>Net cash used in investing activities</b>	(28,956)	(29,198)
	<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>
<b>Financing activities</b>		
Drawdown of bank and other borrowings	–	328,000
Repayment of bank and other borrowings	(96,000)	(221,000)
Dividend paid	(51,465)	(25,843)
Dividend paid to a subsidiary's non-controlling interest	(9,310)	–
Capital injection from shareholders of a subsidiary	–	86,472
Interest paid	(782)	(7,921)
	<hr/>	<hr/>
<b>Net cash (used in)/generated from financing activities</b>	(157,557)	159,708
	<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>
<b>Net increase/(decrease) in cash and cash equivalents</b>	28,580	352,734
<b>Effect of foreign exchange rate changes</b>	6,343	(2,097)
<b>Cash and cash equivalents at the beginning of the period</b>	425,061	367,104
	<hr/>	<hr/>
<b>Cash and cash equivalents at the end of the period</b>	459,984	717,741
	<hr/>	<hr/>



# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 JUNE 2022

## 1. GENERAL INFORMATION

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

The Company and its subsidiaries (collectively, the “**Group**”) are principally engaged in manufacturing and selling urea in the People’s Republic of China (the “**PRC**”).

## 2. BASIS OF PREPARATION

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



## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

30 JUNE 2022

### 2. BASIS OF PREPARATION (CONTINUED)

These interim condensed consolidated financial statements are unaudited, but has been reviewed by BDO Limited in accordance with Hong Kong Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity”, issued by the HKICPA. BDO Limited’s independent review report to the Board of Directors is included on page 17 to page 18.

### 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.



# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

30 JUNE 2022

## 3. CHANGES IN IFRSs (CONTINUED)

### 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 report, has not identified any areas which had direct and material adverse impact caused by COVID-19 to the financial performance or position of the Group as at 30 June 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.

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

30 JUNE 2022

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

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

30 JUNE 2022

## 6. REVENUE AND OTHER INCOME (CONTINUED)

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

	<b>30 June 2022</b>	<b>31 December 2021</b>
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(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>	<b>2021</b>
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Gain/(loss) on investment recognised at fair value through profit or loss	330	(705)
Fair value loss on investment recognised at fair value through profit or loss	–	(1,741)
Foreign exchange (loss)/gain	<u>(8,807)</u>	<u>1,733</u>
	<u>(8,477)</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.

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

30 JUNE 2022

## 9. FINANCE COSTS

	<b>Six months ended 30 June</b>	
	<b>2022</b>	<b>2021</b>
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Interest expense in relation to:		
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> )	(782)	(750)
	<u>982</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>	<b>2021</b>
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(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.



# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

30 JUNE 2022

## 11. INCOME TAX EXPENSES

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

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 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").

## 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).

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

30 JUNE 2022



## 13. EARNINGS PER SHARE

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

	<b>Six months ended 30 June</b>	
	<b>2022</b>	<b>2021</b>
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Earnings for the purposes of basic and diluted earnings per share	147,895	138,459
Weighted average number of ordinary shares for the purposes of basic and diluted earnings per share	620,944,000	620,944,000

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

	<b>At</b>	<b>At</b>
	<b>30 June</b>	<b>31 December</b>
	<b>2022</b>	<b>2021</b>
	<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	3,007	3,183
	116,315	139,247

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

30 JUNE 2022

## 16. TRADE RECEIVABLES

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

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.

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

## 17. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	<b>At 30 June 2022</b>	<b>At 31 December 2021</b>
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(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	7,341	4,085
	121,666	131,379
Less: impairment of other receivables	(5,840)	(17,520)
	115,826	113,859

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

30 JUNE 2022

## 17. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (CONTINUED)

Represented by:

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

## 18. TRADE PAYABLES

Trade payables are non-interest bearing and normally have a credit period of 0 to 90 days.

An ageing analysis of the Group's trade payables, based on the invoice dates is as follows:

	<b>At 30 June 2022</b>	<b>At 31 December 2021</b>
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(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	19,193	19,073
	<u>47,821</u>	<u>54,380</u>

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

30 JUNE 2022

## 19. OTHER PAYABLES AND ACCRUALS

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

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

	<b>At 30 June 2022</b>	<b>At 31 December 2021</b>
	<i>RMB'000</i> (Unaudited)	<i>RMB'000</i> (Audited)
<b>Current</b>		
Interest bearing		
Secured		
– Short-term bank loans (Note (i))	–	76,000
Unsecured		
– Short-term bank loans	–	20,000
	<u>–</u>	<u>96,000</u>

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

30 JUNE 2022



## 20. BANK AND OTHER BORROWINGS (CONTINUED)

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

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

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

30 JUNE 2022

## 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
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Short-term employee benefits	641	664
Retirement benefit scheme contributions	7	25
	<hr/>	<hr/>
Total compensation paid to key management personnel	648	689
	<hr/>	<hr/>

## 23. CAPITAL COMMITMENTS

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

## 24. FAIR VALUE

### (a) Carrying Amount versus Fair Value

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

The fair value of financial liabilities at fair value through profit or loss as at 30 June 2021 was explained in Note 24(c).



## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

30 JUNE 2022

### 24. FAIR VALUE (CONTINUED)

#### (b) Fair value Hierarchy

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

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

The fair value hierarchy has the following levels:

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

#### (c) Valuation techniques

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

#### (d) Transfers during the period

During the six month period to 30 June 2022:

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





## **NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

*30 JUNE 2022*

### **25. CONTINGENT LIABILITIES**

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

### **26. EVENTS AFTER THE END OF THE REPORTING PERIOD**

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

### **27. APPROVAL OF FINANCIAL STATEMENTS**

The unaudited interim condensed consolidated financial statements were approved and authorised for issue by the Board of Directors on 26 August 2022.