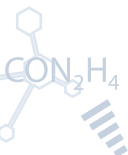




DONGGUANG CHEMICAL LIMITED
東光化工有限公司

(incorporated in the Cayman Islands with limited liability)
Stock Code: 1702



东光化工



Interim Report 2017

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

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

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 Yi

Nomination Committee

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

Corporate Governance Committee

Mr. Ng Sai Leung (*Chairman*)
Mr. Sun Yi
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

COMPLIANCE ADVISER

KGI Capital Asia Limited
41/F, Central Plaza
18 Harbour Road, Wanchai
Hong Kong

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 1201-5, China Resources Building
No. 26 Harbour Road
Wanchai
Hong Kong

CORPORATE INFORMATION (CONTINUED)

SHARE REGISTRAR AND TRANSFER OFFICE

Principal Share Registrar and Transfer Office in the Cayman Islands

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

Hong Kong Branch Share Registrar and Transfer Office

Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

PRINCIPAL BANKERS

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

STOCK CODE

1702

COMPANY WEBSITE

www.dg-chemical.com

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

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 2017 (the “**Reporting Period**”). The relevant financial figures for the corresponding period in 2016 or other dates/periods are also set out in this report for comparative purposes.

In the first half of 2017, the People’s Republic of China (the “**PRC**”) urea market remained challenging. The market price of urea experienced rebound since August 2016 after the decline in the market price of urea from 2012 to 2015. The recovery was supported by the improvement of domestic and international macro economy, and moreover the price of coal which is a major raw material of urea products rebounded because of the policy changes that aimed at rebalancing the supply and demand of coal in the PRC. In addition, there has been a continuous decline in the number of urea production facilities of small-sized producers with an annual production capacity below 300,000 tonnes. The average utilisation rate of urea producers in the PRC observed a declining trend which led to an overall scale down in the supply of urea.

During the Reporting Period, we experienced an increase in revenue by approximately RMB184.2 million, or 25.2%, from approximately RMB730.9 million for the six months ended 30 June 2016 to approximately RMB915.1 million for the Reporting Period, mainly due to the increases in the average retail prices of urea, methanol and other by-products such as carbon dioxide and liquefied natural gas for the Reported Period. The average selling price of our urea products was approximately RMB1,356 per tonne during the Reporting Period, representing an increase of approximately 24.9% from RMB1,086 per tonne during the corresponding period in 2016. The average selling price of our methanol products was approximately RMB1,750 per tonne during the Reporting Period, representing an increase of approximately 40.4% from RMB1,246 per tonne during the corresponding period in 2016. As a result, our gross profit and gross profit margin also increased as the percentage increase of revenue was higher than the percentage increase of cost of sales during the Reporting Period.

OPERATING AND FINANCIAL REVIEW

Revenue by Products

	Six months ended 30 June 2017 RMB'000	Six months ended 30 June 2016 RMB'000	% Change + / (-)
Urea	808,000	662,576	21.9%
Methanol	77,634	54,834	41.6%
Other by-products	29,430	13,446	118.9%
Total	915,064	730,856	25.2%

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

OPERATING AND FINANCIAL REVIEW (CONTINUED)

Revenue by Products (Continued)

Urea

Revenues from urea increased by approximately RMB145.4 million, or 21.9%, from approximately RMB662.6 million for the six months ended 30 June 2016 to approximately RMB808.0 million for the Reporting Period, as (i) the market price of urea increased during the Reporting Period; and (ii) the average selling price of our urea increased by approximately RMB270 per tonne, or 24.9%, from approximately RMB1,086 per tonne for the six months ended 30 June 2016 to approximately RMB1,356 per tonne for the Reporting Period.

Methanol

Revenues from methanol increased by approximately RMB22.8 million, or 41.6%, from approximately RMB54.8 million for the six months ended 30 June 2016 to approximately RMB77.6 million for the Reporting Period, as the average selling price of our methanol increased by approximately RMB504 per tonne, or 40.4%, from approximately RMB1,246 per tonne for the six months ended 30 June 2016 to approximately RMB1,750 per tonne for the Reporting Period.

Gross Profit and Gross Profit Margin

	Six months ended 30 June 2017		Six months ended 30 June 2016		Change	
	Gross Profit RMB'000	Margin %	Gross Profit RMB'000	Margin %	Gross Profit RMB'000	%
Urea	89,393	11.1	77,994	11.8	11,399	14.6
Methanol	11,474	14.8	1,377	2.5	10,097	733.3
Other by-products	12,670	43.1	3,447	25.6	9,223	267.6
Total	113,537	12.4	82,818	11.3	30,719	37.1

Our gross profit increased by approximately RMB30.7 million, or 37.1%, from approximately RMB82.8 million for the six months ended 30 June 2016 to approximately RMB113.5 million for the Reporting Period, primarily due to our increase in revenue resulting from the increase in our selling price of urea, methanol and other by-products. As a result, our gross profit margin increased from approximately 11.3% for the six months ended 30 June 2016 to approximately 12.4% for the Reporting Period.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

OPERATING AND FINANCIAL REVIEW (CONTINUED)

Other Income

Other income slightly increased by approximately RMB0.6 million, or 20.5%, from approximately RMB3.1 million for the six months ended 30 June 2016 to approximately RMB3.7 million for the Reporting Period, primarily due to an increase in our other interest income generated in the Reporting Period while no such income was generated in the corresponding period in 2016.

Other gains and losses, net

Other gains (net) of approximately RMB2.5 million generated for the Reporting Period was mainly to foreign exchange gain of HKD to RMB, while foreign exchange loss of approximately RMB5.7 million was incurred for the corresponding period in 2016.

Administrative expenses

Administrative expenses increased by approximately RMB12.6 million, or 53.0%, from approximately RMB23.9 million for the six months ended 30 June 2016 to approximately RMB36.5 million for the Reporting Period, primarily due to increase in listing expenses.

Distribution expenses

Distribution expenses slightly increased by approximately RMB0.1 million, or 14.7%, from approximately RMB1.1 million for the six months ended 30 June 2016 to approximately RMB1.2 million for the Reporting Period.

Finance costs

Finance costs decreased by approximately RMB4.6 million, or 12.4%, from approximately RMB36.8 million for the six months ended 30 June 2016 to approximately RMB32.2 million for the Reporting Period, primarily due to the settlement of non-convertible bonds and convertible bonds in August 2016.

Taxation

Income tax expenses increased by approximately RMB5.9 million, or 59.3%, from approximately RMB9.9 million for the six months ended 30 June 2016 to approximately RMB15.8 million for the Reporting Period primarily due to an increase in profit before income tax.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

OPERATING AND FINANCIAL REVIEW (CONTINUED)

Profit for the period

Profit for the period increased by approximately RMB12.3 million or 56.8% from approximately RMB21.6 million for the six months ended 30 June 2016 to approximately RMB33.9 million for the Reporting Period. This was mainly due to the increase in gross profit of approximately RMB30.7 million, and decrease in finance cost by approximately RMB4.6 million during the Reporting Period. The increase in profit for the Reporting Period was partly offset by the increase in general and administration expenses and income tax expenses by approximately RMB12.6 million and RMB5.9 million respectively.

CAPITAL STRUCTURE

As at 30 June 2017, the Group had net assets of approximately RMB771.1 million (as at 31 December 2016: approximately RMB739.9 million), comprising of non-current assets of approximately RMB1,361.5 million (as at 31 December 2016: approximately RMB1,417.7 million), and current assets approximately RMB503.2 million (as at 31 December 2016: approximately RMB370.0 million), which primarily consist of cash and bank balances amounted to approximately RMB135.3 million (as at 31 December 2016: approximately RMB162.4 million). Moreover, inventories amounted to approximately RMB42.5 million (as at 31 December 2016: approximately RMB66.8 million) and prepayments, deposit and other receivables amounted to approximately RMB218.0 million (as at 31 December 2016: approximately RMB131.5 million) are also major current assets. The Group recorded a net current liability position of approximately RMB223.4 million as at 30 June 2017 (as at 31 December 2016: approximately RMB297.0 million). Major current liabilities are trade payables amounted to approximately RMB33.8 million (as at 31 December 2016: approximately RMB13.0 million), deposits received, other payables and accruals amounted to approximately RMB72.1 million (as at 31 December 2016: approximately RMB109.1 million) and interest-bearing bank and other borrowings amounted to RMB617.3 million (as at 31 December 2016: approximately RMB537.7 million).

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2017, the Group had cash and bank balances of approximately RMB135.3 million (as at 31 December 2016: approximately RMB162.4 million) and had total interest-bearing bank and other borrowings of approximately RMB964.5 million (as at 31 December 2016: approximately RMB902.5 million). The Group's interest-bearing bank and other borrowings bear interests ranging from 4.3% to 11.28% (as at 31 December 2016: 4.3% to 11.28%) per annum.

As at 30 June 2017, total current and non-current bank and other borrowings of the Group repayable within one year and after one year were approximately RMB617.3 million and RMB347.2 million respectively (as at 31 December 2016: approximately RMB537.7 million and RMB364.9 million respectively).

As at 30 June 2017, the gearing ratio for the Group was 1.08 (as at 31 December 2016: 1.00), based on net debt of approximately RMB829.2 million (as at 31 December 2016: approximately RMB740.1 million) and equity attributable to owners of approximately RMB771.1 million (as at 31 December 2016: approximately RMB739.9 million). The Group would serve its debts primarily with 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

The Company was successfully listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 11 July 2017 ("**Listing Date**"). As 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 will continue to strengthen and grow its current market and industry position while maximising shareholder value and pursuing a growth strategy that includes increasing the Group's production capacity, improving the Group's production quality and efficiency while expanding the Group's value chain into urea related products, strengthening the Group's relationships with key customers and diversifying its customer base, and pursuing strategic relationships and acquisition opportunities. Further details of these strategies are set out in the prospectus ("**Prospectus**") of the Company dated 28 June 2017. It is expected that the Group will implement the above plans partly by using the net proceeds generated from the global offering and internal resources of the Group. In addition, the Group expects the process of industry upgrade and consolidation within the urea industry to be beneficial for the development of large market players like the Group from a long-term perspective.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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 2017, capital commitment of the Group which had been contracted for but not provided in the financial statements was approximately RMB39.7 million (as at 31 December 2016: RMB15.0 million).

CHARGE ON ASSETS

As at 30 June 2017 and 31 December 2016, 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, investment property, leasehold land, inventories and bank deposits. Short-term secured other loans were granted from financial leasing companies in the PRC.

Long-term secured other loans of RMB158,833,000 as at 30 June 2017 (as at 31 December 2016: RMB251,669,000) were granted from non-bank financial institution and a financial leasing company in the PRC, with the pledge of certain of the Group's property, plant and equipment, investment property and leasehold land.

CONTINGENT LIABILITIES

As at 30 June 2017, the Group did not have any material contingent liabilities (as at 31 December 2016: Nil).

EMPLOYEES AND EMOLUMENT POLICY

As at 30 June 2017, the Group employed a total of 1,304 employees (as at 31 December 2016: 1,309 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 RMB55.4 million (six months ended 30 June 2016: RMB49.1 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 the date of this report, 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)	74.19%
Mr. Sun Yi	The Company	Interest of controlled corporation	180,320,000 Shares (L) (Note 3)	29.08%

* The percentage represents the number of shares involved divided by the number of the Company's issued shares as at the date of this report.

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.
3. These 180,320,000 Shares are held by Bloom Ocean, the entire issued shares of which are owned as to approximately 44.01% by Plenty Sun Limited ("**Plenty Sun**"). Plenty Sun is wholly owned by Mr. Sun Yi. By virtue of the SFO, each of Plenty Sun and Mr. Sun Yi is taken to be interested in the Shares held by each of Sino-Coal Holding and Bloom Ocean.

Save as disclosed above, as at the date of this report, 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 the date of this report, 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)	74.19%
Ms. Sun Yukun	Interest of spouse	460,000,000 Shares (L) (Note 3)	74.19%
Sino-Coal Holding	Beneficial owner	279,680,000 Shares (L)	45.11%
Bloom Ocean	Beneficial owner	180,320,000 Shares (L)	29.08%
Plenty Sun	Interest of controlled corporation	180,320,000 Shares (L) (Note 4)	29.08%
Ms. Yao Juan	Interest of spouse	180,320,000 Shares (L) (Note 5)	29.08%
Guofu (Hong Kong) Holdings Limited	Beneficial owner	31,132,000 Shares (L)	5.02%
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) (Note 6)	5.02%

* The percentage represents the number of shares involved divided by the number of the Company's issued shares as at the date of this report.

** 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 each of Sino-Coal Holding and Bloom Ocean.
5. Ms. Yao Juan is the spouse of Mr. Sun. 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. 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 the date of this report, 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)

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 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 for the period from the Listing Date up to the date of this report.

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 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 since the Listing Date and up 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.

OTHER INFORMATION (CONTINUED)

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

The shares of the Company were listed on the Main Board of the Stock Exchange on 11 July 2017. Since the Listing Date and up to the date of this report, neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

CHANGE IN DIRECTORS' BIOGRAPHICAL DETAILS

The Company is not aware of any changes in Directors' biographical details since the date of the Prospectus of the Company and up to the date of this report, which are required to be disclosed pursuant to rule 13.51B(1) of the Listing Rules.

APPRECIATION

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

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

Hong Kong, 29 August 2017

REPORT ON REVIEW OF CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS



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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 condensed consolidated interim financial statements set out on pages 17 to 33 which comprise the condensed consolidated statement of financial position of Dongguang Chemical Limited (the “**Company**”) and its subsidiaries as of 30 June 2017 and the related condensed consolidated statement of profit or loss and other comprehensive income, changes in equity and cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Main Board Listing 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**”) issued by the International Accounting Standards Board. The Directors of the Company are responsible for the preparation and presentation of these condensed consolidated interim financial statements in accordance with IAS 34. Our responsibility is to express a conclusion on these condensed consolidated interim 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 International 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 CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

CONCLUSION

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

BDO Limited
Certified Public Accountants

Hong Kong, 29 August 2017

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CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2017

		Six months ended 30 June	
		2017	2016
	Notes	RMB'000	RMB'000
Revenue	4	915,064	730,856
Cost of sales		(801,527)	(648,038)
Gross profit		113,537	82,818
Other income	4	3,693	3,066
Other gains or losses, net	5	2,488	(5,722)
Administrative expenses		(36,530)	(23,880)
Distribution expenses		(1,211)	(1,056)
Finance costs	7	(32,207)	(36,763)
Profit from operation		49,770	18,463
Change in fair value of convertible bonds		–	13,124
Profit before income tax	8	49,770	31,587
Income tax expenses	9	(15,837)	(9,940)
Profit for the period		33,933	21,647
Other comprehensive income that may be reclassified to profit or loss in subsequent periods			
Exchange differences on translation of foreign operation		(2,724)	1,697
Total comprehensive income for the period attributable to owners of the Company		31,209	23,344
		RMB cents	RMB cents
Earnings per share for profit attributable to the owners of the Company			
– Basic	11	7.4	4.7
– Diluted	11	7.4	3.9

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2017

		At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
	Notes		
Non-current assets			
Property, plant and equipment	12	1,266,533	1,317,369
Investment property		6,842	6,974
Prepaid land lease payments		86,734	87,785
Payment for equipment		1,411	3,416
Deferred tax assets		–	2,181
		<u>1,361,520</u>	<u>1,417,725</u>
Total non-current assets			
Current assets			
Inventories	13	42,452	66,762
Prepaid land lease payments		2,079	2,079
Prepayments, deposits and other receivables	14	218,017	131,503
Loan receivable		91,007	–
Note receivables		1,776	1,170
Amount due from a shareholder		9	–
Income tax recoverable		1,467	–
Restricted bank deposits		11,020	6,000
Cash and bank balance		135,323	162,443
		<u>503,150</u>	<u>369,957</u>
Total current assets			
Current liabilities			
Trade payables	15	33,832	12,955
Deferred revenue		3,253	3,130
Deposits received, other payables and accruals	16	72,091	109,137
Short-term bank and other borrowings	17	512,149	494,146
Long-term bank and other borrowings – current portion	17	105,184	43,530
Income tax payable		–	4,091
		<u>726,509</u>	<u>666,989</u>
Total current liabilities			
Net current liabilities		<u>(223,359)</u>	<u>(297,032)</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

AS AT 30 JUNE 2017

		At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
	<i>Notes</i>		
Non-current liabilities			
Long-term bank and other borrowings	17	347,231	364,857
Deferred revenue		15,398	15,927
Deferred tax liabilities		4,414	—
		<hr/>	<hr/>
Total non-current liabilities		367,043	380,784
		<hr/>	<hr/>
Net assets		771,118	739,909
		<hr/>	<hr/>
Capital and reserves attributable to owners of the company			
Share capital	18	283	283
Reserves		770,835	739,626
		<hr/>	<hr/>
Total equity		771,118	739,909
		<hr/>	<hr/>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30 JUNE 2017

	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	Total RMB'000
At 1 January 2016	283	606,137	43,387	(559,842)	96,161	160	531,376	717,662
Profit for the period	-	-	-	-	-	-	21,647	21,647
Exchange differences arising on translation of foreign operations	-	-	-	-	-	1,697	-	1,697
Total comprehensive income for the period	-	-	-	-	-	1,697	21,647	23,344
Appropriation of reserve	-	-	6,047	-	-	-	(6,047)	-
Utilisation of specific reserve for the period	-	-	(4,955)	-	-	-	4,955	-
At 30 June 2016	283	606,137	44,479	(559,842)	96,161	1,857	551,931	741,006
At 1 January 2017	283	606,137	43,897	(559,842)	96,161	3,597	549,676	739,909
Profit for the period	-	-	-	-	-	-	33,933	33,933
Exchange differences arising on translation of foreign operations	-	-	-	-	-	(2,724)	-	(2,724)
Total comprehensive income for the period	-	-	-	-	-	(2,724)	33,933	31,209
Appropriation of reserve	-	-	5,360	-	-	-	(5,360)	-
Utilisation of specific reserve for the period	-	-	(1,539)	-	-	-	1,539	-
At 30 June 2017	283	606,137	47,718	(559,842)	96,161	873	579,788	771,118

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
 FOR THE SIX MONTHS ENDED 30 JUNE 2017

	Six months ended 30 June	
	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>
Operating activities		
Profit before income tax	49,770	31,587
Adjustments for:		
Amortisation of prepaid land lease payments	1,051	1,051
Depreciation of investment property	132	132
Depreciation of property, plant and equipment	72,098	70,965
Government grant income	(1,586)	(1,740)
Dividend of financial assets at fair value through profit or loss	(48)	–
Change in fair value of convertible bonds	–	(13,124)
Exchange difference on non-convertible bonds, convertible bonds and other borrowings	(3,663)	5,722
Interest income	(1,870)	(422)
Interest expense	32,207	36,763
	<hr/>	<hr/>
Operating profit before working capital changes	148,091	130,934
Decrease in inventories	24,310	15,926
Increase in note receivables	(606)	(2,284)
Increase in prepayments, deposits and other receivables	(86,514)	(42,074)
Increase in trade payables	20,877	2,707
Decrease in deposits received, other payables and accruals	(37,046)	(32,603)
Increase/(decrease) in deferred revenue	1,180	(6,000)
	<hr/>	<hr/>
Cash generated from operations	70,292	66,606
PRC tax paid	(14,800)	(8,150)
	<hr/>	<hr/>
Net cash generated from operating activities	55,492	58,456

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2017

	Six months ended 30 June	
	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>
Investing activities		
Purchase of property, plant and equipment	(21,261)	(21,416)
Decrease in advance of prepayments for equipment	2,005	–
Increase in amounts due from shareholders	(9)	(32)
Increase in amounts due from officers	–	(667)
Drawdown in loan receivables	(90,000)	–
Dividend received from investments in financial assets	48	–
Increase in restricted bank deposits	(5,020)	–
Interest received	863	422
	<hr/>	<hr/>
Net cash used in investing activities	(113,374)	(21,693)
	<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>
Financing activities		
Drawdown of bank and other borrowings	340,000	320,000
Repayment of bank and other borrowings	(279,511)	(221,349)
Repayment of non-convertible bonds	–	(35,619)
Interest paid	(27,003)	(34,796)
	<hr/>	<hr/>
Net cash generated from financing activities	33,486	28,236
	<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>
Net (decrease)/increase in cash and cash equivalents	(24,396)	64,999
Effect of foreign exchange rate changes	(2,724)	1,697
Cash and cash equivalents at the beginning of the period	162,443	222,211
	<hr/>	<hr/>
Cash and cash equivalents at the end of the period	135,323	288,907
	<hr/>	<hr/>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM 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 on 11 July 2017. The registered office of the Company is located at 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

The unaudited condensed consolidated interim financial statements for the six months ended 30 June 2017 are presented in Renminbi (“**RMB**”) which is the functional currency of the Company. The unaudited condensed consolidated interim financial statements for the six months ended 30 June 2017 are prepared in accordance with International Accounting Standard 34 “Interim Financial Reporting” issued by the International Accounting Standards Board, as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”).

As at 30 June 2017, the Group’s current liabilities exceeded its current assets by RMB223,359,000. 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 following factor when preparing the unaudited condensed consolidated interim 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 satisfy the cash flow requirement from the fund collected by Initial Public Offering, where applicable. 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 unaudited condensed consolidated interim financial statements on a going concern basis.

The unaudited condensed consolidated interim financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto for the year ended 31 December 2016 (“**2016 Audited Consolidated Financial Statements**”). The significant accounting policies that have been used in the preparation of these unaudited condensed consolidated interim financial statements are consistent with those followed in the preparation of 2016 Audited Consolidated Financial Statements. It should be noted that accounting estimates and assumptions are used in preparation of the unaudited condensed consolidated interim financial statements. Although these estimates are based on management’s best knowledge and judgement of current events and actions, actual results may ultimately differ from those estimates.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

3. ADOPTION OF NEW AND REVISED STANDARDS

The International Accounting Standards Board has issued certain new and revised IFRSs. For those which are effective for accounting period beginning on 1 January 2017, the adoption of the new IFRSs had no material impact on how the results and financial positions for the current and prior periods have been prepared and presented. For those which are not yet effective and have not been early adopted in prior accounting periods, the Group is in the process of assessing their impact on the Group's results and financial position.

4. 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. An analysis of the Group's revenue and other income is as follows:

	Six months ended 30 June	
	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>
Revenue		
Sales of urea	808,000	662,576
Sales of by-products	107,064	68,280
	<u>915,064</u>	<u>730,856</u>
Other income		
Sales of scrap materials	22	34
Government grants	1,586	1,740
Bank interest income	188	422
Other interest income	1,682	–
Compensation income	–	240
Others	215	630
	<u>3,693</u>	<u>3,066</u>
	<u>918,757</u>	<u>733,922</u>

5. OTHER GAINS AND LOSSES, NET

Other gains and losses, net has been arrived at:

	Six months ended 30 June	
	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>
Foreign exchange gain/(loss)	2,488	(5,722)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

6. 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.

7. FINANCE COSTS

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
Interest expense in relation to:		
Bank and other loans wholly repayable within five years	32,207	26,902
Non-convertible bonds and convertible bonds	–	9,861
	<u>32,207</u>	<u>36,763</u>

8. PROFIT BEFORE INCOME TAX

Profit before income tax has been arrived at:

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
Auditors' remuneration	49	50
Cost of inventories sold recognised as expense	801,527	648,038
Depreciation of property, plant and equipment	72,098	70,965
Amortisation of prepaid land lease payments	1,051	1,051
Amortisation of investment property	132	132
Listing expenses	13,163	3,519
Employee benefit expenses (including directors' remuneration)		
– Wages, salaries and other benefits	36,947	32,195
– Discretionary bonuses	10,715	10,060
– Retirement benefit scheme	7,740	6,849
	<u>55,402</u>	<u>49,104</u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

9. INCOME TAX EXPENSES

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
Current tax – PRC		
Current tax	3,436	5,077
Withholding tax on dividends	5,806	–
Deferred tax		
Charged for the period	6,595	4,863
	<u>15,837</u>	<u>9,940</u>

The Group is subject to income tax on an entity basis on profits arising in or derived from the tax jurisdictions in which members of the Group are domiciled and operate. Pursuant to the rules and regulations of the Cayman Islands, Samoa and British Virgin Islands, the Group's subsidiaries incorporated in the Cayman Islands, Samoa and British Virgin Islands are not subject to any income tax. 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 2017 and 2016.

The provision for Mainland China current income tax is based on the statutory rate of 25% of the assessable profit of the PRC subsidiaries of the Group as determined in accordance with the PRC Corporation Income Tax Law which was approved and became effective on 1 January 2008 (the "**New Corporate Income Tax Law**").

10. DIVIDENDS AND DISTRIBUTION

No dividend was paid, declared or proposed by the Company during the six months ended 30 June 2017, nor has any dividend been proposed since the end of reporting period (six months ended 30 June 2016: Nil).

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

11. EARNINGS PER SHARE

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

	Six months ended 30 June	
	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>
Earnings for the purposes of basic earnings per share	33,933	21,647
Effect of dilutive potential ordinary shares:		
Convertible bonds	—	(959)
	<u>33,933</u>	<u>20,688</u>
Earnings for the purposes of diluted earnings per share	33,933	20,688
Weighted average number of ordinary shares for the purposes of basic earnings per share	460,000,000	460,000,000
Effect of dilutive potential ordinary shares:		
Convertible bonds	—	70,329,622
	<u>—</u>	<u>70,329,622</u>
Weighted average number of ordinary shares for the purposes of diluted earnings per share	<u>460,000,000</u>	<u>530,329,622</u>

12. 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 2017, additions to property, plant and equipment approximately amounted to RMB21,261,000 (year ended 31 December 2016: RMB32,430,000). No disposals of property, plant and equipment were noted for the period ended 30 June 2017 and year ended 31 December 2016.

13. INVENTORIES

	At	At
	30 June	31 December
	2017	2016
	<i>RMB'000</i>	<i>RMB'000</i>
Raw materials	28,689	50,914
Finished goods	7,377	9,827
Parts and spares	6,386	6,021
	<u>42,452</u>	<u>66,762</u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

14. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Prepayments for distribution expenses	–	57
Prepayments for equipment	2,531	3,915
Deferred listing expenses	7,120	5,888
Value-added tax recoverable	96,980	51,135
Prepayments for electricity	20,000	20,000
Prepayments for coal suppliers	30,372	24,282
Other prepayments, deposits and other receivables	62,425	29,642
	<u>219,428</u>	<u>134,919</u>
Less: non-current portion	<u>(1,411)</u>	<u>(3,416)</u>
	<u>218,017</u>	<u>131,503</u>

15. 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 2017 RMB'000	At 31 December 2016 RMB'000
0 to 90 days	26,055	4,784
91 to 180 days	1,096	4,736
181 to 365 days	4,805	907
Over 365 days	1,876	2,528
	<u>33,832</u>	<u>12,955</u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

16. DEPOSITS RECEIVED, OTHER PAYABLES AND ACCRUALS

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Deposits received	21,461	60,721
Accruals	16,274	9,667
Other payables	34,356	38,749
	<u>72,091</u>	<u>109,137</u>

17. BANK AND OTHER BORROWINGS

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Current		
Interest bearing		
Secured		
– short-term bank loans (Note (i))	212,000	202,000
– short-term other loan (Note (i))	48,149	47,146
– current portion of long-term bank and other loans (Notes (i) and (iv))	101,900	33,561
Unsecured		
– bank loans	252,000	245,000
– current portion of long-term other loans (Note (iii))	3,284	9,969
	<u>617,333</u>	<u>537,676</u>
Non-current		
Interest bearing		
Secured		
– long-term bank loan (Note (i))	27,000	–
– long-term other loans (Note (iv))	218,891	311,621
Unsecured		
– long-term other loans (Note (iii))	51,248	53,236
– long-term entrusted loan (Note (v))	50,092	–
	<u>347,231</u>	<u>364,857</u>
	<u>964,564</u>	<u>902,533</u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

17. BANK AND OTHER BORROWINGS (CONTINUED)

As at 30 June 2017 and 31 December 2016, total current and non-current bank and other borrowings were scheduled to repay as follows:

	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Within one year	617,333	537,676
More than one year, but not exceeding two years	347,231	364,857
	<u>964,564</u>	<u>902,533</u>

Notes:

- (i) As at 30 June 2017 and 31 December 2016, the Group's secured short-term bank loans, short-term other loan and long-term bank loan were secured by certain of the Group's property, plant and equipment, investment property, leasehold land, inventories and bank deposits. Short-term secured other loans were granted from financial leasing companies in the PRC.
- (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 the covenants, the drawn down facilities would become repayable on demand.
- (iii) Long-term unsecured other loans as at 30 June 2017 and 31 December 2016 represented borrowings granted from two independent third parties in total of HK\$68 million in August 2016, which carry fixed interest rate 10.0% per annum, were repayable within two years. These loans were guaranteed by two directors of the Company. On 6 January 2017, HK\$10 million of such borrowings was settled.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

17. BANK AND OTHER BORROWINGS (CONTINUED)

- (iv) Long-term secured other loans of RMB158,833,000 as at 30 June 2017 (31 December 2016: RMB251,669,000) were granted from non-bank financial institution and a financial leasing company in the PRC, with the pledge of certain of the Group's property, plant and equipment, investment property and leasehold land.

The remaining long-term secured other loan of RMB60,058,000 as at 30 June 2017 (31 December 2016: RMB60,643,000) represented borrowings granted from an independent third party of HK\$70 million on 29 December 2016, bearing an interest rate of 5.0% per annum and 7.5% per annum plus London Interbank Offered Rate for the first and second year respectively, and was repayable within two years (the "**Offshore Loan**"). The Offshore Loan was secured by 100% equity interest in Sino Emirates and with personal guarantee by two directors of the Company. In connection with the Offshore Loan, the lender had requested that Hebei Dongguang lend a sum of RMB60 million to Min-Silver-Gold Investment Management (Beijing) Co. Ltd. (the "**Borrower**"), an affiliated company of the lender in the PRC. Accordingly, on or around the same time, the Group had entered into an entrustment loan agreement with the Dongguang Branch of the Agricultural Bank of China ("**Dongguang ABC**") and the Borrower to regulate the foregoing (the "**Entrusted Loan A**"). At the request of the lender, Hebei Dongguang entered into another similar entrustment loan agreement with Dongguang ABC and the Borrower in March 2017 and granted an entrusted loan to the Borrower for the sum of RMB30.0 million in April 2017. Such loan was granted in connection with an offshore loan obtained for the redemption of the PNB-SBI Exchangeable Note by a shareholder of the Company (collectively with the Entrusted Loan A, the "**Entrusted Loans**"). The Entrusted Loans are unsecured and have a term of one year with an interest rate of 4.5% per annum.

- (v) Long-term entrusted loan as at 30 June 2017 represented borrowings granted from Bank of Communications. A pledged deposit was provided by a third party to Bank of Communications. Bank of Communications then provided the equivalent loan amount to Hebei Dongguang. The long-term entrusted loan is unsecured and has a term of 19 months with an interest rate of 5% per annum.
- (vi) As at 30 June 2017 and 31 December 2016, secured borrowings amounted to RMB92,000,000 and RMB92,000,000 respectively and unsecured borrowings amounted to RMB198,656,000 and RMB163,205,000 respectively were guaranteed by directors of the Company, respectively.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

18. SHARE CAPITAL

	Number of shares '000	Amount US\$	Amount RMB'000
Authorised share capital:			
As at 31 December 2016	500,000	50,000	309
Increase in authorised share capital (<i>Note</i>)	<u>499,500,000</u>	<u>49,950,000</u>	<u>340,140</u>
As at 30 June 2017	<u>500,000,000</u>	<u>50,000,000</u>	<u>340,449</u>
Issued share capital:			
As at 31 December 2016 and 30 June 2017	<u>460,000,000</u>	<u>46,000</u>	<u>283</u>

Note:

On 20 June 2017, the shareholders of the Company resolved to increase the authorised share capital of the Company from US\$50,000 to US\$50,000,000 divided into 500,000,000,000 shares each by the creation of an additional 499,500,000,000 shares.

19. RELATED PARTY TRANSACTIONS

- (a) Other than transactions and balances detailed elsewhere in this report, the Group had the following material transactions with related parties:

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
Purchase of raw materials from related parties		
Wang Zhijiang	–	7,335
Wang Yuhong	–	21,077
	<u> </u>	<u> </u>

As Wang Zhijiang and Wang Yuhong are not connected persons according to the Listing Rules, the related party transactions in respect of above items did not constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

19. RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Compensation of key management personnel of the Group

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
Short-term employee benefits	567	555
Retirement benefit scheme contributions	17	19
	<hr/>	<hr/>
Total compensation paid to key management personnel	584	574

20. CAPITAL COMMITMENTS

	At	At
	30 June 2017	31 December 2016
	RMB'000	RMB'000
Commitments for the acquisition of property, plant and equipment:		
– contracted for but not provided	39,731	14,968

21. CONTINGENT LIABILITIES

As at 30 June 2017 and 31 December 2016, neither the Group nor the Company had any significant contingent liabilities.

22. EVENTS AFTER THE END OF THE REPORTING PERIOD

Except as disclosed elsewhere in the condensed consolidated interim financial statements, the following significant events took place subsequent to 30 June 2017:

On 10 July 2017, 160,000,000 shares of USD0.0001 each were issued under public offer in Hong Kong and international placing at a price of HK\$1.06 per share. The Group raised approximately RMB147,563,872 before any related listing expenses arising from the public offer and placing, resulting in an increase in the issued share capital of the Company by RMB108,742 and the capital reserve of the Company by RMB131,334,965, which net off with the related share issue expense of RMB16,228,907.

23. APPROVAL OF FINANCIAL STATEMENTS

The unaudited condensed consolidated interim financial statements were approved and authorised for issue by the Board of Directors on 29 August 2017.