DONGGUANG CHEMICAL LIMITED
東光化工有限公司

(incorporated in the Cayman Islands with limited liability)

Stock Code : 1702

2018
Interim Report

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

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

Non-executive Director

Ms. Chen Jimin
(appointed on 6 April 2018)

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

Elstone Capital Limited (formerly known as Everstone Capital Limited)
Suite 1612, 16/F.,
West Tower,
Shun Tak Centre,
168-200 Connaught Road Central,
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

CORPORATE INFORMATION (CONTINUED)

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 1201-5, China Resources Building
No. 26 Harbour Road
Wanchai
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
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 2018 (the "**Reporting Period**"). The relevant financial figures for the corresponding period in 2017 or other dates/periods are also set out in this report for comparative purposes.

In the first half of 2018, the People's Republic of China (the "**PRC**") urea market showed improvement compared to last year. The market price of urea increased after the elimination of some obsolete and inefficient urea production and the rebalancing of the supply and demand on the urea market. The price increase was also supported by the improvement of domestic and international macro economy, and the price of coal which is a major raw material of urea products in the PRC. Moreover, in the first half of 2018, the Group was awarded the national top 20 urea production, profit of nitrogen fertilizer companies in 2017.

During the Reporting Period, we experienced an increase in revenue by approximately RMB198.4 million, or 21.7%, from approximately RMB915.1 million for the six months ended 30 June 2017 to approximately RMB1,113.5 million for the Reporting Period, mainly due to the increases in the average retail prices of urea, methanol and other products such as carbon dioxide and liquefied natural gas for the Reported Period. The average selling price of our urea products was approximately RMB1,694 per tonne during the Reporting Period, representing an increase of approximately 24.9% from RMB1,356 per tonne during the corresponding period in 2017. The average selling price of our methanol products was approximately RMB2,008 per tonne during the Reporting Period, representing an increase of approximately 14.7% from RMB1,750 per tonne during the corresponding period in 2017. 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 2018 *RMB'000*	Six months ended 30 June 2017 *RMB'000*	% Change +/(-)
Urea	962,835	808,000	19.2
Methanol	85,188	77,634	9.7
Other products	65,476	29,430	122.5
Total	**1,113,499**	**915,064**	**21.7**

Urea

Revenues from urea increased by approximately RMB154.8 million, or 19.2%, from approximately RMB808.0 million for the six months ended 30 June 2017 to approximately RMB962.8 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 RMB338 per tonne, or 24.9%, from approximately RMB1,356 per tonne for the six months ended 30 June 2017 to approximately RMB1,694 per tonne for the Reporting Period.

Methanol

Revenues from methanol increased by approximately RMB7.6 million, or 9.7%, from approximately RMB77.6 million for the six months ended 30 June 2017 to approximately RMB85.2 million for the Reporting Period, as the average selling price of our methanol increased by approximately RMB258 per tonne, or 14.7%, from approximately RMB1,750 per tonne for the six months ended 30 June 2017 to approximately RMB2,008 per tonne for the Reporting Period.

OPERATING AND FINANCIAL REVIEW (CONTINUED)

Gross Profit and Gross Profit Margin

	Six months ended 30 June 2018		Six months ended 30 June 2017			
	Gross Profit	Margin	Gross Profit	Margin	Gross Profit Change	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Urea	123,870	12.9	89,393	11.1	34,477	38.6
Methanol	5,642	6.6	11,474	14.8	(5,832)	(50.8)
Other products	24,069	36.8	12,670	43.1	11,399	90.0
Total	**153,581**	**13.8**	**113,537**	**12.4**	**40,044**	**35.3**

Our gross profit increased by approximately RMB40.0 million, or 35.3%, from approximately RMB113.5 million for the six months ended 30 June 2017, to approximately RMB153.5 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 products. As a result, our gross profit margin increased from approximately 12.4% for the six months ended 30 June 2017 to approximately 13.8% for the Reporting Period.

Other Income

Other income increased by approximately RMB1.7 million, or 46.4%, from approximately RMB3.7 million for the six months ended 30 June 2017, to approximately RMB5.4 million for the Reporting Period, primarily due to an increase in our bank and other interest income generated in the Reporting Period.

Other gains and losses, net

Other losses (net) of approximately RMB1.5 million generated for the Reporting Period was mainly to foreign exchange loss of HK$ to RMB, while foreign exchange gain of approximately RMB2.5 million was incurred for the corresponding period in 2017.

OPERATING AND FINANCIAL REVIEW (CONTINUED)

Gross Profit and Gross Profit Margin (Continued)

Administrative expenses

Administrative expenses decreased by approximately RMB3.4 million, or 9.2%, from approximately RMB36.5 million for the six months ended 30 June 2017 to approximately RMB33.2 million for the Reporting Period, primarily due to the decrease in listing expenses which was partially offset by the increase of director remuneration and consultancy fee.

Distribution expenses

There was no material fluctuation for distribution expenses between the Reporting Period and the six months ended 30 June 2017.

Finance costs

Finance costs decreased by approximately RMB3.8 million, or 11.9%, from approximately RMB32.2 million for the six months ended 30 June 2017 to approximately RMB28.4 million for the Reporting Period, primarily due to general decrease in the level of borrowings.

Taxation

Income tax expenses increased by approximately RMB13.6 million, or 85.8%, from approximately RMB15.8 million for the six months ended 30 June 2017 to approximately RMB29.4 million for the Reporting Period primarily due to the significant increase in profit before income tax.

Profit for the period

Profit for the period increased by approximately RMB31.4 million or 92.6% from approximately RMB33.9 million for the six months ended 30 June 2017 to approximately RMB65.3 million for the Reporting Period. This was mainly due to the increase in gross profit of approximately RMB40.0 million, increase in other income of approximately RMB1.7 million and decrease in administrative expenses and finance costs of approximately RMB3.4 million and RMB3.8 million respectively during the Reporting Period. The increase in profit for the Reporting Period was partially offset by the increase in income tax expenses of approximately RMB13.6 million and the decrease in other gains or losses (net) of approximately RMB4.0 million.

CAPITAL STRUCTURE

As at 30 June 2018, the Group had net assets of approximately RMB966.3 million (as at 31 December 2017: approximately RMB910.8 million), comprising of non-current assets of approximately RMB1,341.6 million (as at 31 December 2017: approximately RMB1,365.8 million), and current assets approximately RMB613.4 million (as at 31 December 2017: approximately RMB601.8 million), which primarily consist of cash and bank balances amounted to approximately RMB212.8 million (as at 31 December 2017: approximately RMB177.2 million). Moreover, inventories amounted to approximately RMB84.6 million (as at 31 December 2017: approximately RMB76.6 million) and prepayments, deposits and other receivables amounted to approximately RMB208.1 million (as at 31 December 2017: approximately RMB244.9 million) are also major current assets. The Group recorded a net current liability position of approximately RMB216.6 million as at 30 June 2018 (as at 31 December 2017: approximately RMB335.2 million). Major current liabilities are trade payables amounted to approximately RMB73.1 million (as at 31 December 2017: approximately RMB40.5 million), deposits received, other payables and accruals amounted to approximately RMB47.3 million (as at 31 December 2017: approximately RMB76.3 million), contract liabilities amounted to approximately RMB22.6 million (as at 31 December 2017: Nil) and interest-bearing bank and other borrowings amounted to RMB680.0 million (as at 31 December 2017: approximately RMB813.1 million).

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2018, the Group had cash and bank balances of approximately RMB212.8 million (as at 31 December 2017: approximately RMB177.2 million) and had total interest-bearing bank borrowings of approximately RMB778.8 million (as at 31 December 2017: approximately RMB915.2 million). The Group's interest-bearing bank borrowings bear interests ranging from 3.3% to 11.28% (as at 31 December 2017: 3.3% to 11.28%) per annum.

As at 30 June 2018, total current and non-current bank and other borrowings of the Group repayable within one year and after one year were approximately RMB680.0 million and RMB98.8 million respectively (as at 31 December 2017: approximately RMB813.1 million and RMB102.1 million respectively).

LIQUIDITY AND FINANCIAL RESOURCES (CONTINUED)

As at 30 June 2018, the gearing ratio for the Group was 0.59 (as at 31 December 2017: 0.81), based on net debt of approximately RMB566.0 million (as at 31 December 2017: approximately RMB738.0 million) and equity attributable to owners of approximately RMB966.3 million (as at 31 December 2017: approximately RMB910.8 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

Due to the continuous improvement of both domestic and international macroeconomic environment, the elimination of obsolete and inefficient urea production and the rebalancing of the supply and demand in the urea market, the overall market prices for urea and other products have increased in the first half of 2018. The demand for urea in the PRC is expected to maintain a relatively stable growth with the support of constant demand in agricultural use and the growing industrial applications of urea products.

As a major urea producer in the PRC, the Group is committed to environmental protection, emission reduction and energy savings in its production process. In recent years, the PRC government has increasingly emphasised on environmental protection aiming to speed up the process of industry upgrade and consolidation. In the first half of 2018, the Group successfully installed a new environmental protection facilities to further reduce the gas emission. The Group will continue to strengthen its environmental protection management by upgrading the existing facilities or investing in new technology, in order to maintain our leading industry position, enhance our competitiveness in the market and maximize our profitability.

Furthermore, the Group will continue to consolidate and develop its existing market and industry position and do its best to increase shareholder value. The Group will promote its growth strategies, including increasing production capacity, improving production quality and efficiency, expanding the value chain to urea-related products, strengthening relationships with major customers, and expanding customer base, while seeking to establish strategic relationships and identify acquisition opportunities.

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 2018, capital commitment of the Group which had been contracted for but not provided in the financial statements was approximately RMB69.7 million (as at 31 December 2017: RMB28.5 million).

CHARGE ON ASSETS

As at 30 June 2018 and 31 December 2017, 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 loan as at 30 June 2018 were granted from a finance leasing company in the PRC.

Long-term secured other loans of RMB158.8 million as at 30 June 2018 (as at 31 December 2017: RMB222.7 million) were granted from non-bank financial institution and a finance 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 2018, the Group did not have any material contingent liabilities (as at 31 December 2017: Nil).

EMPLOYEES AND EMOLUMENT POLICY

As at 30 June 2018, the Group employed a total of 1,273 employees (as at 31 December 2017: 1,298 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 RMB52.3 million (six months ended 30 June 2017: RMB55.4 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) (*Note 6*)	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 & 7*)	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.

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. 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 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)

UPDATE ON THE USE OF PROCEEDS

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

As at 30 June 2018, the Company has used approximately RMB36.2 million to purchase, construct and install new environmental protection facility and approximately RMB10.4 million to repay part of the two outstanding term loans to two independent third parties, out of the net proceeds from the global offering of the shares of the Company.

EVENTS AFTER THE REPORTING PERIOD

Saved as disclosed in this report, 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.

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 consists of the independent non-executive Directors, namely Mr. Ng Sai Leung, Mr. Liu Jincheng and Ms. Lin Xiuxiang. Mr. Ng Sai Leung is the Chairman of the audit committee.

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

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

CORPORATE GOVERNANCE

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

CHANGE IN DIRECTORS' BIOGRAPHICAL DETAILS

The Company is not aware of any changes in Directors' biographical details during the Reporting Period 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 2018

REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

25th 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 44 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 2018 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

Chow Tak Sing, Peter
Practising Certificate Number: P04659
Hong Kong

29 August 2018

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2018

		Six months ended 30 June	
		2018	**2017**
	Notes	*RMB'000*	*RMB'000*
Revenue	*5*	1,113,499	915,064
Cost of sales		(959,918)	(801,527)
Gross profit		153,581	113,537
Other income	*5*	5,406	3,693
Other gains or losses, net	*6*	(1,515)	2,488
Administrative expenses		(33,152)	(36,530)
Distribution expenses		(1,173)	(1,211)
Finance costs	*8*	(28,373)	(32,207)
Profit before income tax	*9*	94,774	49,770
Income tax expenses	*10*	(29,429)	(15,837)
Profit for the period		65,345	33,933
Other comprehensive income that may be reclassified to profit or loss in subsequent periods			
Exchange differences on translation of foreign operation		436	(2,724)
Total comprehensive income for the period attributable to owners of the Company		65,781	31,209
		RMB cents	*RMB cents*
Earnings per share for profit attributable to the owners of the Company			
– Basic	*12*	10.5	7.4
– Diluted	*12*	10.5	7.4

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2018

	Notes	At 30 June 2018 RMB'000	At 31 December 2017 RMB'000
Non-current assets			
Property, plant and equipment	13	1,189,964	1,218,606
Investment property		6,578	6,710
Prepaid land lease payments		84,632	85,683
Payment for acquisitions of equipment	15	8,440	3,507
Restricted bank deposits		51,962	51,301
Total non-current assets		1,341,576	1,365,807
Current assets			
Inventories	14	84,632	76,609
Prepaid land lease payments		2,079	2,079
Prepayments, deposits and other receivables	15	208,103	244,933
Loan receivable		90,254	89,994
Notes receivables		4,500	–
Restricted bank deposits		11,058	11,038
Cash and bank balance		212,763	177,156
Total current assets		613,389	601,809
Current liabilities			
Trade payables	16	73,122	40,502
Deferred revenue		3,254	3,254
Contract liabilities	5	22,620	–
Deposits received, other payables and accruals	17	47,250	76,329
Short-term bank and other borrowings	18	338,000	440,000
Long-term bank and other borrowings – current portion	18	341,943	373,064
Income tax payable		3,621	3,848
Amount due to a shareholder	20(a)	158	–
Total current liabilities		829,968	936,997
Net current liabilities		(216,579)	(335,188)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

AS AT 30 JUNE 2018

	Notes	At 30 June 2018 RMB'000	At 31 December 2017 RMB'000
Non-current liabilities			
Long-term bank and other borrowings	18	98,820	102,162
Amount due to a shareholder	20(a)	43,184	–
Deferred revenue		12,144	13,771
Deferred tax liabilities		4,578	3,919
Total non-current liabilities		158,726	119,852
Net assets		966,271	910,767
Capital and reserves attributable to owners of the company			
Share capital	19	392	392
Reserves		965,879	910,375
Total equity		966,271	910,767

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2018

	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 equity *RMB'000*
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

	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*	Share-based payment reserve *RMB'000*	Retained earnings *RMB'000*	Total equity *RMB'000*
At 1 January 2018	392	737,363	49,557	(559,842)	96,161	(4,848)	1,085	590,899	910,767
Profit for the period	–	–	–	–	–	–	–	65,345	65,345
Exchange differences arising on translation of foreign operations	–	–	–	–	–	436	–	–	436
Total comprehensive income for the period	–	–	–	–	–	436	–	65,345	65,781
Equity-settled share-based transactions	–	–	–	–	–	–	203	–	203
Dividends approved in respect of the previous year	–	–	–	–	–	–	–	(10,480)	(10,480)
Appropriation of reserve	–	–	6,288	–	–	–	–	(6,288)	–
Utilisation of specific reserve for the period	–	–	(2,995)	–	–	–	–	2,995	–
At 30 June 2018	392	737,363	52,850	(559,842)	96,161	(4,412)	1,288	642,471	966,271

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

	Six months ended 30 June	
	2018	**2017**
	RMB'000	*RMB'000*
Operating activities		
Profit before income tax	94,774	49,770
Adjustments for:		
Amortisation of prepaid land lease payments	1,051	1,051
Depreciation of investment property	132	132
Depreciation of property, plant and equipment	72,413	72,098
Loss on disposal of property, plant and equipment	1	–
Government grant income	(1,627)	(1,586)
Dividend of financial assets at fair value through profit or loss	–	(48)
Exchange difference on other borrowings	609	(3,663)
Share-based payment expenses	203	–
Interest income	(3,646)	(1,870)
Interest expense	28,373	32,207
Operating profit before working capital changes	192,283	148,091
(Increase)/decrease in inventories	(8,023)	24,310
Increase in notes receivables	(4,500)	(606)
Decrease/(increase) in prepayments, deposits and other receivables	36,830	(86,514)
Increase in trade payables	32,620	20,877
Increase in contract liabilities	22,620	–
Decrease in deposits received, other payables and accruals	(29,079)	(37,046)
Increase in deferred revenue	–	1,180
Cash generated from operations	242,751	70,292
Income tax paid	(28,997)	(14,800)
Net cash generated from operating activities	213,754	55,492

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

FOR THE SIX MONTHS ENDED 30 JUNE 2018

	Six months ended 30 June	
	2018	**2017**
	RMB'000	*RMB'000*
Investing activities		
Purchase of property, plant and equipment	(41,546)	(21,261)
(Increase)/decrease in advance of prepayments for acquisitions of equipment	(4,933)	2,005
Proceeds from disposal of property, plant and equipment	2	–
Increase in amounts due from shareholders	–	(9)
Drawdown of loan receivables	–	(90,000)
Dividend received from investments in financial assets	–	48
Increase in restricted bank deposits	(681)	(5,020)
Interest received	3,386	863
Net cash used in investing activities	(43,772)	(113,374)
Financing activities		
Drawdown of bank and other borrowings	255,000	340,000
Repayment of bank and other borrowings	(393,766)	(279,511)
Advance from a shareholder	40,166	–
Dividend paid	(10,480)	–
Interest paid	(25,731)	(27,003)
Net cash (used in)/generated from financing activities	(134,811)	33,486
Net increase/(decrease) in cash and cash equivalents	35,171	(24,396)
Effect of foreign exchange rate changes	436	(2,724)
Cash and cash equivalents at the beginning of the period	177,156	162,443
Cash and cash equivalents at the end of the period	212,763	135,323

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 Public of China (the "**PRC**").

2. BASIS OF PREPARATION

These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 ("**IAS 34**"), issued by the International Accounting Standards Board ("**IASB**") and the applicable disclosure provisions of Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. These interim condensed consolidated financial statements were authorised for issue on 29 August 2018.

These interim condensed consolidated financial statements have been prepared with the same accounting policies adopted in the 2017 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 2018. This is the first set of the Group's financial statements in which IFRS 9 and IFRS 15 have been adopted. Details of any changes in accounting policies are set out in note 3.

The preparation of these interim condensed consolidated financial statements in compliance with IAS 34 requires the use of certain judgements, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates. The areas where significant judgements and estimates have been made in preparing the consolidated financial statements and their effect are disclosed in note 4.

As at 30 June 2018, the Group's current liabilities exceeded its current assets by RMB216,579,000. The Group may not be able to realise its assets and discharge its liabilities in the normal course of business. The directors of the Company have considered the following factor listed in the following paragraph when preparing the Group's interim condensed consolidated financial statements.

2. BASIS OF PREPARATION (CONTINUED)

The Group meets its day-to-day working capital requirements through its bank borrowings. The Group has good credit history and relationship with banks, and will be able to refinance or to consider alternative sources of financing, or to defer dividend payment and uncommitted capital expenditure, where applicable. As at 30 June 2018, the Group had obtained letters of intent from several reputable banks in the PRC in an aggregate amount of RMB241,000,000. As such, the Group has the ability to refinance the existing bank borrowings and no immediate cash flow requirements for settling such outstanding borrowings included in the statement of financial position. In addition, the directors of the Company have carried out a detailed review of the working capital forecast of the Group. Based on the review, in the opinion of the directors, the Group will have sufficient working capital to finance its operations and remain as a going concern in the foreseeable future. Accordingly, the directors are satisfied that it is appropriate to prepare the interim condensed consolidated financial statements on a going concern basis.

These interim condensed consolidated financial statements are presented in Renminbi ("**RMB**"), unless otherwise stated. These interim condensed consolidated financial statements contain condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2017 annual financial statements. These interim condensed consolidated financial statements do not include all of the information required for a complete set of financial statements prepared in accordance with International Financial Reporting Standards (the "**IFRSs**") and should be read in conjunction with the 2017 consolidated financial statements.

These interim condensed consolidated financial statements are unaudited, but has been reviewed by BDO Limited in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity", issued by the HKICPA. 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:

- IFRS 9, Financial Instruments
- IFRS 15, Revenue from Contracts with Customers
- IFRIC-Interpretation 22, Foreign Currency Transactions and Advance Considerations

3. CHANGES IN IFRSs (CONTINUED)

The IASB has issued a number of new or amended IFRSs that are first effective for the current accounting period of the Group: (Continued)

- Amendments to IFRS 2, Classification and Measurement of Share-based Payment Transactions
- Amendments to IFRS 4, Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts
- Amendments to IAS 28 included in Annual Improvements to IFRSs 2014-2016 Cycle, Investments in Associates and Joint Ventures
- Amendments to IAS 40, Transfers of Investment Property
- Amendments to IFRS 1 included in Annual Improvements to IFRSs 2014-2016 Cycle, First-time Adoption of International Financial Reporting Standards

The impact of the adoption of IFRS 9 Financial Instruments (see note 3(a) below) and IFRS 15 Revenue from Contracts with Customers (see note 3(b) below) have been summarised in below. The other new or amended IFRSs that are effective from 1 January 2018 did not have any material impact on the Group's accounting policies.

(a) IFRS 9 Financial Instruments ("IFRS 9")

(i) Classification and measurement of financial instruments

IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: (1) classification and measurement; (2) impairment and (3) hedge accounting. The adoption of IFRS 9 from 1 January 2018 has resulted in changes in accounting policies of the Group and the amounts recognised in the interim condensed consolidated financial statements.

IFRS 9 basically retains the existing requirements in IAS 39 for the classification and measurements of financial liabilities. However, it eliminates the previous IAS 39 categories for financial assets of held to maturity financial assets, loans and receivables and available-for-sale financial assets. The adoption of IFRS 9 has no material impact on the Group's accounting policies related to financial liabilities and derivative financial instruments. The impact of IFRS 9 on the Group's classification and measurement of financial assets is set out below.

3. CHANGES IN IFRSs (CONTINUED)

(a) IFRS 9 Financial Instruments ("IFRS 9") (Continued)

(i) Classification and measurement of financial instruments (Continued)

Under IFRS 9, except for certain trade receivables (that the trade receivables do not contain a significant financing component in accordance with IFRS 15), an entity shall, at initial recognition, measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss ("**FVTPL**"), transaction costs. A financial asset is classified as: (i) financial assets at amortised cost ("**amortised costs**"); (ii) financial assets at fair value through other comprehensive income ("**FVOCI**"); or (iii) FVTPL (as defined in above). The classification of financial assets under IFRS 9 is generally based on two criteria: (i) the business model under which the financial asset is managed and (ii) its contractual cash flow characteristics (the "solely payments of principal and interest" criterion, also known as "**SPPI criterion**"). Under IFRS 9, embedded derivatives is no longer required to be separated from a host financial asset. Instead, the hybrid financial instrument is assessed as a whole for the classification.

A financial asset is measured at amortised cost if it meets both of the following conditions and it has not been designated as at FVTPL:

- It is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

- The contractual terms of the financial asset give rise on specified dates to cash flows that meet the SPPI criterion.

A debt investment is measured at FVOCI if it meets both of the following conditions and it has not been designated as at FVTPL:

- It is held within a business model whose objective is to achieved by both collecting contractual cash flows and selling financial assets; and

- The contractual terms of the financial asset give rise on specified dates to cash flows that meet the SPPI criterion.

3. CHANGES IN IFRSs (CONTINUED)

(a) IFRS 9 Financial Instruments ("IFRS 9") (Continued)

(i) Classification and measurement of financial instruments (Continued)

On initial recognition of an equity investment that is not held for trading, the Group could irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an investment-by-investment basis. All other financial assets not classified at amortised cost or FVOCI as described above are classified as FVTPL. This includes all derivative financial assets. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or FVOCI at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

The following accounting policies would be applied to the Group's financial assets as follows:

FVTPL	FVTPL is subsequently measured at fair value. Changes in fair value, dividends and interest income are recognised in profit or loss.
Amortised costs	Financial assets at amortised cost are subsequently measured using the effective interest rate method. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain on derecognition is recognised in profit or loss.
FVOCI (debt investments)	Debt investments at fair value through other comprehensive income are subsequently measured at fair value. Interest income calculated using the effective interest rate method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in other comprehensive income. On derecognition, gains and losses accumulated in other comprehensive income are reclassified to profit or loss.
FVOCI (equity investments)	Equity investments at fair value through other comprehensive income are measured at fair value. Dividend income are recognised in profit or loss unless the dividend income clearly represents a recovery of part of the cost of the investments. Other net gains and losses are recognised in other comprehensive income and are not reclassified to profit or loss.

3. CHANGES IN IFRSs (CONTINUED)

(a) IFRS 9 Financial Instruments ("IFRS 9") (Continued)

(i) Classification and measurement of financial instruments (Continued)

The following table summarises the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Group's financial assets as at 1 January 2018:

Financial assets	Original classification under IAS 39	New classification under IFRS 9	Carrying amount as at 1 January 2018 under IAS 39	Carrying amount as at 1 January 2018 under IFRS 9
			RMB'000	*RMB'000*
Deposits and other receivables	Loans and receivables	Amortised cost	100,976	100,976
Notes receivables	Loans and receivables	FVOCI	–	–
Loan receivable	Loans and receivables	Amortised cost	89,994	89,994
Restricted bank deposits	Loans and receivables	Amortised cost	62,339	62,339
Cash and bank balance	Loans and receivables	Amortised cost	177,156	177,156

(ii) Impairment of financial assets

The adoption of IFRS 9 has changed the Group's impairment model by replacing the IAS 39 "incurred loss model" to the "expected credit losses ("**ECLs**") model". IFRS 9 requires the Group to recognise ECL for trade receivables, financial assets at amortised costs, contract assets and debt investment at FVOCI earlier than IAS 39. Cash and cash equivalents are subject to ECL model but the impairment is immaterial for the current period.

Under IFRS 9, the losses allowances are measured on either of the following bases: (1) 12 months ECLs: these are the ECLs that result from possible default events within the 12 months after the reporting date: and (2) lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

Measurement of ECLs

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the assets' original effective interest rate.

3. CHANGES IN IFRSs (CONTINUED)

(a) IFRS 9 Financial Instruments ("IFRS 9") (Continued)

(ii) Impairment of financial assets (Continued)

Measurement of ECLs (Continued)

The Group has measured loss allowances for other receivables and loan receivable based on 12-month ECLs. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Group considers a financial asset to be in default when: (1) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (2) the financial asset is more than 90 days past due.

The maximum period considered when estimating ECL is the maximum contractual period over which the Group is exposed to credit risk.

(a) Impairment of loan receivable

The Group's loan receivable at amortised cost is considered to have low credit risk, and the loss allowance recognised during the period was therefore limited to 12 months ECLs.

The loss allowance for loan receivable was considered insignificant. Therefore, no loss allowance for loan receivables has been recognised upon the transition to IFRS 9 as of 1 January 2018 and during the six months ended 30 June 2018.

(b) Impairment of other receivables

Other financial assets at amortised cost of the Group mainly represents other receivables. The Group has applied the ECL model and the impact is considered insignificant to the Group. No ECL is recognised upon the transition to IFRS 9 as of 1 January 2018 and for the six months ended 30 June 2018.

(iii) Hedge accounting

Hedge accounting under IFRS 9 has no impact on the Group as the Group does not apply hedge accounting in its hedging relationships.

3. CHANGES IN IFRSs (CONTINUED)

(a) IFRS 9 Financial Instruments ("IFRS 9") (Continued)

(iv) Transition

The Group has applied the transitional provision in IFRS 9 such that IFRS 9 was generally adopted without restating comparative information. The reclassifications and the adjustments arising from the new ECLs rules are therefore not reflected in the statement of financial position as at 31 December 2017, but are recognised in the statement of financial position on 1 January 2018. This means that differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 but rather those of IAS 39.

The following assessment has been made on the basis of the facts and circumstances that existed at the date of initial application of IFRS 9 (the "**DIA**"):

- The determination of the business model within which a financial asset is held;
- The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL; and
- The designation of certain investments in equity investments not held for trading as at FVOCI.

If an investment in a debt investment had low credit risk at the DIA, then the Group has assumed that the credit risk on the asset had not increased significantly since its initial recognition.

(b) IFRS 15 Revenue from Contracts with Customers ("IFRS 15")

IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue and related interpretations. IFRS 15 has established a five-steps model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at the amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The Group has adopted IFRS 15 using the cumulative effect method without practical expedients. The Group considered that the cumulative effect of initially applying IFRS 15 as an adjustment to the opening balance of retained earnings at the date of initial application (that is, 1 January 2018) is insignificant. As a result, the financial information presented for 2017 has not been restated.

3. CHANGES IN IFRSs (CONTINUED)

(b) IFRS 15 Revenue from Contracts with Customers ("IFRS 15") (Continued)

Payments received in advance that are related to the sales of goods not yet delivered to customers are deferred and recognised as contract liabilities. Revenues are recognised when goods or services are delivered to customers. The Group does not expect to have any significant financing component as the period between the delivery of goods to the customers and payment by the customers does not exceed one year. As a result, the Group does not adjust any of the transaction prices for the effects of the time value of money.

The following table summarised the impact of adopting IFRS 15 on the Group's interim condensed consolidated statement of financial position as at 30 June 2018. There was no material impact on the Groups' interim condensed consolidated statement of profit or loss and other comprehensive income for the six months ended 30 June 2018 and its interim condensed consolidated statement of cash flow for the six months ended 30 June 2018.

Impact on the interim consolidated condensed statement of financial position as of 30 June 2018:

	RMB'000
Liabilities	
Current liabilities	
Deposits received, other payable and accruals	(25,339)
Contract liabilities	25,339
Total liabilities	–

Details of the new significant accounting policies and the nature of the changes to previous accounting policies in relation to the Group's revenue are set out below:

Sales of urea and other products

The Group's revenue is from sales of urea and other products. Customers obtain control of the urea and other products when the goods are delivered to the customers. Revenue is thus recognised upon when the customers accepted the products. There is generally only one performance obligation. The Group determined that revenue from sales of goods is recognised at point in time when the goods are delivered to and have been accepted.

3. CHANGES IN IFRSs (CONTINUED)

(b) IFRS 15 Revenue from Contracts with Customers ("IFRS 15") (Continued)

Right of return

The Group's sales contracts with customers provide a right of return within a reasonable period.

Under IAS 18, revenue for these contracts was recognised when a reasonable estimate of the returns could be made, provide that all other revenue recognition criteria are met. If a reasonable estimate could not be made, such revenue would be deferred until the return period lapsed or a reasonable estimate could be made.

Under IFRS 15, right of return gives rise to variable consideration. The variable consideration is estimated at contract inception and constrained until the associated uncertainty is subsequently resolved. The application of the constraint on variable consideration increases the amount of revenue that will be deferred. In addition, a refund liability and a right to recover returned goods assets are recognised.

Impact

No right to the returned goods are recognised as at 1 January 2018 as the sales returns from customers is insignificant per historical operation experience of the Group.

4. USE OF JUDGEMENTS AND ESTIMATES

In preparing this interim condensed consolidated financial statements, the significant judgements made by the management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to 2017 annual financial statements, except for new significant judgements and key sources of estimation uncertainty related to the application of IFRS 9 and IFRS 15 as described in note 3.

5. REVENUE AND OTHER INCOME

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold by the Group, after deducting relevant taxes. In the following table, revenue is disaggregated by primary geographical market, major products and timing of revenue recognition. Other income is presented as follows:

	Six months ended 30 June	
	2018	**2017**
	RMB'000	*RMB'000*
Revenue		
Primary geographical market		
– PRC	1,113,499	915,064
Major products		
– Sales of urea	962,835	808,000
– Sales of methanol	85,188	77,634
– Sales of liquid ammonia	35,913	6,956
– Sales of carbon dioxide	18,132	13,172
– Sales of LNG	11,431	9,302
	1,113,499	915,064
Timing of revenue recognition		
– At a point in time	1,113,499	915,064
Other income		
Government grants	1,627	1,586
Bank interest income	1,503	188
Other interest income	2,143	1,682
Others	133	237
	5,406	3,693

5. REVENUE AND OTHER INCOME (CONTINUED)

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

	30 June 2018	**1 January 2018**
	RMB'000	*RMB'000*
Contract liabilities	22,620	25,339

The contract liabilities mainly relate to the advance consideration received from customers. RMB25,339,000 of the contract revenue has been recognised as revenue for the six months ended 30 June 2018 from performance obligation satisfied during the period when the goods were sold.

6. OTHER GAINS OR LOSSES, NET

Other gains or losses, net has been arrived at:

	Six months ended 30 June	
	2018	**2017**
	RMB'000	*RMB'000*
Foreign exchange (loss)/gain	(1,515)	2,488

7. SEGMENT INFORMATION

Operating segment information

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

8. FINANCE COSTS

	Six months ended 30 June	
	2018	**2017**
	RMB'000	*RMB'000*
Interest expense in relation to:		
Bank and other loans wholly repayable within five years	28,982	32,207
Advance from a shareholder	1,619	–
	30,601	32,207
Less: Amount capitalised *(note)*	(2,228)	–
	28,373	32,207

Note:

Borrowing costs of RMB1,480,000 capitalised during the period arose on the general borrowing pool and are calculated by applying a capitalisation rate of 3% (six months ended 30 June 2017: Nil) to expenditure on qualifying assets. The remaining borrowing cost of RMB748,000 capitalised during the period arose on the specific borrowing granted for acquisition of property, plant and equipment on 29 December 2017.

9. PROFIT BEFORE INCOME TAX

Profit before income tax is arrived at after charging:

	Six months ended 30 June	
	2018	**2017**
	RMB'000	*RMB'000*
Auditors' remuneration	300	49
Cost of inventories recognised as expense	959,918	801,527
Depreciation of property, plant and equipment	72,413	72,098
Loss on disposal of property, plant and equipment	1	–
Amortisation of prepaid land lease payments	1,051	1,051
Depreciation of investment property	132	132
Listing expenses	–	13,163
Employee costs (including directors' remuneration)		
– Wages and salaries	36,549	36,947
– Discretionary bonuses	11,293	10,715
– Retirement benefit scheme contributions	4,225	7,740
– Share-based payment expenses	203	–
	52,270	55,402

10. INCOME TAX EXPENSES

	Six months ended 30 June	
	2018	**2017**
	RMB'000	*RMB'000*
Current tax – PRC		
Current tax	27,638	3,436
Withholding tax on dividends	1,132	5,806
Deferred tax		
Charged for the period	659	6,595
	29,429	15,837

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 2018 and 2017.

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**").

11. DIVIDENDS AND DISTRIBUTION

During the six months ended 30 June 2018, a final dividend of HK$0.02 per ordinary share, absorbing a total amount of approximately HK$12,400,000 in respect of the year ended 31 December 2017 (six months ended 30 June 2017: nil) was approved at the Annual General Meeting held on 24 May 2018. 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 2018. (six months ended 30 June 2017: Nil).

12. EARNINGS PER SHARE

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

	Six months ended 30 June	
	2018	**2017**
	RMB'000	*RMB'000*
Earnings for the purposes of basic earnings per share	65,345	33,933
Effect of dilutive potential ordinary shares:		
Remuneration shares	–	–
Earnings for the purposes of diluted earnings per share	65,345	33,933
Weighted average number of ordinary shares for the purposes of basic earnings per share	620,000,000	460,000,000
Effect of dilutive potential ordinary shares:		
Remuneration shares	888,507	–
Weighted average number of ordinary shares for the purposes of diluted earnings per share	620,888,507	460,000,000

In calculating the diluted earnings per share attributable to the owners of the Company for the six months ended 30 June 2018, there was an adding back of bonus element of remuneration shares. Therefore, the diluted earnings per share attributable to the owners of the Company for the six months ended 30 June 2018 is based on the earnings attributable to the owners of the Company of approximately RMB65.3 million and on the weighted average number of 620,888,507 ordinary shares during the six months ended 30 June 2018.

13. PROPERTY, PLANT AND EQUIPMENT

No impairment losses were recognised in respect of property, plant and equipment for both periods. During the six months ended 30 June 2018, additions to property, plant and equipment approximately amounted to RMB43,774,000 (six months ended 30 June 2017: RMB21,261,000). Items of property, plant and equipment with a net book value of RMB3,000 were disposed of during the six months ended 30 June 2018 (six months ended 30 June 2017: Nil), resulting in a loss on disposal of RMB1,000 (six months ended 30 June 2017: Nil).

14. INVENTORIES

	At 30 June 2018	**At 31 December 2017**
	RMB'000	*RMB'000*
Raw materials	69,741	56,923
Finished goods	4,996	12,924
Parts and spares	9,895	6,762
	84,632	76,609

15. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	At 30 June 2018 *RMB'000*	At 31 December 2017 *RMB'000*
Prepayments for distribution expenses	48	13
Prepayments for acquisitions of equipment	9,052	4,366
Value-added tax recoverable	112,433	107,086
Prepayments for electricity	20,000	–
Prepayments for coal purchases	3,734	14,220
Other receivables for drawdown of bank borrowings	–	45,162
Other prepayments, deposits and other receivables	71,276	77,593
	216,543	248,440
Less: non-current portion	(8,440)	(3,507)
	208,103	244,933

16. TRADE PAYABLES

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

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

	At 30 June 2018 *RMB'000*	At 31 December 2017 *RMB'000*
0 to 90 days	62,587	29,530
91 to 180 days	1,221	964
181 to 365 days	1,121	4,629
Over 365 days	8,193	5,379
	73,122	40,502

17. DEPOSITS RECEIVED, OTHER PAYABLES AND ACCRUALS

	At 30 June 2018 *RMB'000*	At 31 December 2017 *RMB'000*
Deposits received	–	25,339
Accruals	14,844	13,574
Other payables	32,406	37,416
	47,250	76,329

18. BANK AND OTHER BORROWINGS

	At 30 June 2018 *RMB'000*	At 31 December 2017 *RMB'000*
Current		
Interest bearing		
Secured		
– Short-term bank loans *(Note (i))*	177,000	170,000
– Short-term other loans *(Note (i))*	47,423	–
– Current portion of long-term bank and other loans *(Notes (i), (iv) and (v))*	294,520	331,104
Unsecured		
– Bank loans	161,000	270,000
– Current portion of long-term other loans *(Note (iii))*	–	41,960
	679,943	813,064
Non-current		
Interest bearing		
Secured		
– Long-term bank loans *(Note (i))*	98,820	102,162
	778,763	915,226

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

	At 30 June 2018 *RMB'000*	At 31 December 2017 *RMB'000*
Within one year	679,943	813,064
More than one year, but not exceeding two years	98,820	102,162
	778,763	915,226

18. BANK AND OTHER BORROWINGS (CONTINUED)

Notes:

(i) As at 30 June 2018 and 31 December 2017, 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 loan as at 30 June 2018 was granted from a finance leasing company 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 any covenants, the drawn down facilities would become repayable on demand.

(iii) Long-term unsecured other loans as at 31 December 2017 represented borrowings granted from an independent third party in August 2016, which carry fixed interest rate of 10.0% per annum, were repayable within two years. These loans were guaranteed by two directors of the Company. On 14 February 2018, the remaining principals and interests of HK$51 million have been fully settled.

(iv) Long-term secured other loans of RMB158,833,000 as at 30 June 2018 (31 December 2017: RMB222,715,000) were granted from non-bank financial institution and a finance 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 RMB59,117,000 as at 30 June 2018 (31 December 2017: RMB58,652,000) 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 lent 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 (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.

18. BANK AND OTHER BORROWINGS (CONTINUED)

Notes:

(v) Long-term entrusted loan of RMB49,570,000 as at 30 June 2018 (31 December 2017: RMB49,737,000) 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 2018, secured borrowings amounted to RMB97,000,000 (31 December 2017: RMB70,000,000) and unsecured borrowings amounted to RMB110,000,000 (31 December 2017: RMB135,000,000) were guaranteed by directors of the Company, respectively.

19. SHARE CAPITAL

	Number of shares	Amount	Amount
	'000	*US$*	*RMB'000*
Authorised share capital:			
As at 31 December 2017 and 30 June 2018	500,000,000	50,000,000	340,449
Issued share capital:			
As at 31 December 2017 and 30 June 2018	620,000	62,000	392

20. RELATED PARTY TRANSACTIONS AND BALANCES

(a) Amount due to a shareholder, Bloom Ocean Investments Limited, is unsecured, interest-bearing at 8% per annum and repayable in full on 13 February 2020.

(b) Compensation of key management personnel of the Group

	Six months ended 30 June	
	2018	**2017**
	RMB'000	*RMB'000*
Short-term employee benefits	1,362	567
Retirement benefit scheme contributions	13	17
Share-based payment expenses	203	–
Total compensation paid to key management personnel	1,578	584

21. CAPITAL COMMITMENTS

	At 30 June 2018	**At 31 December 2017**
	RMB'000	*RMB'000*
Commitments for the acquisition of property, plant and equipment:		
– contracted for but not provided	69,684	28,466

22. CONTINGENT LIABILITIES

As at 30 June 2018, neither the Group nor the Company had any significant contingent liabilities (31 December 2017: Nil).

23. EVENTS AFTER THE END OF THE REPORTING PERIOD

Except as disclosed elsewhere in the interim condensed consolidated financial statements, no significant event took place subsequent to 30 June 2018.

24. APPROVAL OF FINANCIAL STATEMENTS

The unaudited interim condensed consolidated financial statements were approved and authorised for issue by the Board of Directors on 29 August 2018.