DONGGUANG CHEMICAL LIMITED
東光化工有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 1702)

ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2017

The board (the "**Board**") of directors ("**Directors**") of Dongguang Chemical Limited (the "**Company**") is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively, the "**Group**") for the year ended 31 December 2017 (the "**Reporting Period**"). The relevant financial figures for the corresponding period or dates in 2016 are also set out in this announcement for comparative purposes.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2017

		Year ended 31 December	
		2017	2016
	Notes	***RMB'000***	*RMB'000*
Revenue	*4*	**1,858,955**	1,457,523
Cost of sales		**(1,668,744)**	(1,307,769)
Gross profit		**190,211**	149,754
Other income	*4*	**8,293**	9,924
Other gains or losses, net	*5*	**4,957**	(10,661)
Administrative expenses		**(67,182)**	(49,264)
Distribution expenses		**(4,078)**	(2,075)
Finance costs	*7*	**(60,770)**	(68,121)
Profit from operation		**71,431**	29,557
Change in fair value of convertible bonds		**–**	8,701
Loss on redemption of convertible bonds		**–**	(1,344)
Profit before income tax	*8*	**71,431**	36,914
Income tax expenses	*9*	**(24,548)**	(18,104)
Profit for the year		**46,883**	18,810
Other comprehensive income that may be reclassified to profit or loss in subsequent periods			
Exchange differences on translation of foreign operation		**(8,445)**	3,437
Total comprehensive income for the year attributable to owners of the Company		**38,438**	22,247
		RMB cents	*RMB cents*
Earnings per share for profit attributable to the owners of the Company			
– Basic	*11*	**8.7**	4.1
– Diluted	*11*	**8.7**	4.1

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

		As at 31 December	
		2017	2016
	Notes	***RMB'000***	*RMB'000*
Non-current assets			
Property, plant and equipment	*12*	**1,218,606**	1,317,369
Investment property		**6,710**	6,974
Prepaid land lease payments		**85,683**	87,785
Prepayments for equipment		**3,507**	3,416
Deferred tax assets		**–**	2,181
Restricted bank deposits		**51,301**	–
Total non-current assets		**1,365,807**	1,417,725
Current assets			
Inventories	*13*	**76,609**	66,762
Prepaid land lease payments		**2,079**	2,079
Prepayments, deposits and other receivables	*14*	**244,933**	131,503
Loan receivable		**89,994**	–
Note receivables		**–**	1,170
Restricted bank deposits		**11,038**	6,000
Cash and bank balance		**177,156**	162,443
Total current assets		**601,809**	369,957

		As at 31 December	
		2017	2016
	Notes	***RMB'000***	*RMB'000*
Current liabilities			
Trade payables	*15*	**40,502**	12,955
Deferred revenue		**3,254**	3,130
Deposits received, other payables and accruals	*16*	**76,329**	109,137
Short-term bank and other borrowings	*17*	**440,000**	494,146
Long-term bank and other borrowings – current portion	*17*	**373,064**	43,530
Income tax payable		**3,848**	4,091
Deferred tax liabilities		**3,919**	–
Total current liabilities		**940,916**	666,989
Net current liabilities		**(339,107)**	(297,032)
Non-current liabilities			
Long-term bank and other borrowings	*17*	**102,162**	364,857
Deferred revenue		**13,771**	15,927
Total non-current liabilities		**115,933**	380,784
Net assets		**910,767**	739,909
Capital and reserves attributable to owners of the Company			
Share capital	*18*	**392**	283
Reserves		**910,375**	739,626
Total equity		**910,767**	739,909

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

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

2. BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with the accounting policies that comply with International Financial Reporting Standards ("**IFRSs**"), which comprise all standards and interpretations approved by the International Accounting Standards Board ("**IASB**"), and International Accounting Standards ("**IASs**") and Standing Interpretations Committee interpretations approved by the International Accounting Standards Committee that remain in effect.

The consolidated financial statements have been prepared under the historical cost convention.

As at 31 December 2017, the Group's current liabilities exceeded its current assets by RMB339,107,000 (2016: RMB297,032,000). 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 when preparing the consolidated financial statements of the Group.

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 31 December 2017, the Group had obtained letters of intent from several reputable banks in the PRC in an aggregate amount of RMB420,000,000. As such, the Group has the ability to refinance the existing bank borrowings and no immediate cash flow requirement 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 consolidated financial statements on a going concern basis.

3. ADOPTION OF NEW AND REVISED STANDARDS

(a) Adoption of new/revised IFRSs – effective on 1 January 2017

Amendments to IAS 7	Disclosure Initiative
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Annual Improvements to IFRSs 2014-2016 Cycle	Amendments to IFRS 12, Disclosure of Interests in Other Entities

The adoption of these amendments has no material impact on the Group's financial statements.

(b) New/revised IFRSs that have been issued but are not yet effective

The following new/revised IFRSs, potentially relevant to the Group's financial statements, have been issued, but are not yet effective and have not been early adopted by the Group. The Group's current intention is to apply these changes on the date they become effective.

Annual Improvements to IFRSs 2014-2016 Cycle	Amendments to IFRS 1, First-time adoption of International Financial Reporting Standards[1]
Annual Improvements to IFRSs 2014-2016 Cycle	Amendments to IAS 28, Investments in Associates and Joint Ventures[1]
Amendments to IFRS 2	Classification and Measurement of Share-Based Payment Transactions[1]
IFRS 9	Financial Instruments[1]
IFRS 15	Revenue from Contracts with Customers[1]
Amendments to IFRS 15	Revenue from Contracts with Customers (Clarifications to IFRS 15)[1]
Amendments to IAS 40	Transfers of Investment Property[1]
IFRIC–Int 22	Foreign Currency Transactions and Advance Consideration[1]
Amendments to IFRS 9	Prepayment Features with Negative Compensation[2]
IFRS 16	Leases[2]
IFRIC–Int 23	Uncertainty over Income Tax Treatments[2]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]

1 Effective for annual periods beginning on or after 1 January 2018

2 Effective for annual periods beginning on or after 1 January 2019

3 The amendments were originally intended to be effective for periods beginning on or after 1 January 2016. The effective date has now been deferred/removed. Early application of the amendments continue to be permitted.

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:

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Revenue		
Sales of urea	**1,597,696**	1,308,987
Sales of by-products	**261,259**	148,536
	1,858,955	1,457,523
Other income		
Sales of scrap materials	**19**	164
Government grants	**3,212**	8,063
Bank interest income	**551**	826
Interest income from loan receivable	**3,713**	–
Others	**798**	871
	8,293	9,924
	1,867,248	1,467,447

5. OTHER GAINS AND LOSSES, NET

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Foreign exchange gain/(loss)	**4,957**	(10,661)

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

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Interest expense in relation to:		
Bank and other loans wholly repayable within five years	**60,770**	55,978
Non-convertible bonds and convertible bonds	**–**	12,143
	60,770	68,121

8. PROFIT BEFORE INCOME TAX

Profit before income tax is arrived at after charging:

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Auditors' remuneration	**943**	50
Cost of inventories sold recognised as expense	**1,668,744**	1,307,769
Depreciation of property, plant and equipment	**143,788**	142,957
Amortisation of prepaid land lease payments	**2,102**	2,102
Depreciation of investment property	**264**	264
Listing expenses	**13,163**	10,255
Employee benefit expenses		
(including directors' remuneration)		
– Wages and salaries	**48,388**	47,177
– Discretionary bonuses	**21,383**	20,708
– Retirement benefit scheme contributions	**8,493**	14,943
– Staff welfare and other benefits	**17,653**	13,030
– Share-based payment expenses	**1,085**	–
	97,002	95,858

9. INCOME TAX EXPENSES

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Current tax – PRC		
Current tax	**12,642**	16,370
Withholding tax on dividends	**5,806**	6,000
Deferred tax		
Charged/(credited) for the year	**6,100**	(4,266)
	24,548	18,104

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 each of the reporting period.

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

10. DIVIDENDS AND DISTRIBUTION

The Board recommended the payment of a final dividend of HK$0.02 cents per ordinary share, absorbing a total amount of about HK$12.4 million, in respect of the year ended 31 December 2017, which is subject to the approval of the shareholders of the Company at the forthcoming Annual General Meeting of the Company (2016: Nil). The proposed dividends are not reflected as a dividend payable in these financial statements, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2018.

11. EARNINGS PER SHARE

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

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Earnings for the purposes of basic earnings per share	**46,883**	18,810
Effect of dilutive potential ordinary shares:		
Remuneration shares	**–**	–
Earnings for the purposes of diluted earnings per share	**46,883**	18,810
Weighted average number of ordinary shares for the purposes of basic earnings per share	**536,712,329**	460,000,000
Effect of dilutive potential ordinary shares:		
Remuneration shares	**729,100**	–
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**537,441,429**	460,000,000

In calculating the diluted earnings per share attributable to the owners of the Company for the year ended 31 December 2017, there was an adding back of bonus element of remuneration shares on the potential ordinary shares. Therefore, the diluted earnings per share attributable to the owners of the Company for the year ended 31 December 2017 is based on the earnings attributable to the owners of the Company of approximately RMB46,883,000 and on the weighted average number of 537,441,429 ordinary shares during the year ended 31 December 2017.

12. PROPERTY, PLANT AND EQUIPMENT

No impairment losses were recognised in respect of property, plant and equipment for both periods. During the year ended 31 December 2017, additions to property, plant and equipment approximately amounted to RMB45,025,000 (2016: RMB32,430,000). No disposals of property, plant and equipment were noted for the year ended 31 December 2017 and 2016.

13. INVENTORIES

	At 31 December 2017 *RMB'000*	At 31 December 2016 *RMB'000*
Raw materials	**56,923**	50,914
Finished goods	**12,924**	9,827
Parts and spares	**6,762**	6,021
	76,609	66,762

14. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	At 31 December 2017 *RMB'000*	At 31 December 2016 *RMB'000*
Prepayments for distribution expenses	**13**	57
Prepayments for equipment	**4,366**	3,915
Deferred listing expenses	**–**	5,888
Value-added tax recoverable	**107,086**	51,135
Prepayments for electricity	**–**	20,000
Prepayments for coal suppliers	**14,220**	24,282
Other receivables for drawdown of bank borrowings *(note (i))*	**45,162**	–
Other prepayments, deposits and other receivables	**77,593**	29,642
	248,440	134,919
Less: non-current portion	**(3,507)**	(3,416)
	244,933	131,503

Note:

(i) Other receivables for drawdown of bank borrowings represented drawdown of a bank borrowing yet to be received as at 31 December 2017. Subsequent to the end of reporting period, the Group has received the drawdown in full on 3 January 2018 (note 17(vi)).

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 31 December 2017	At 31 December 2016
	RMB'000	*RMB'000*
0 to 90 days	**29,530**	4,784
91 to 180 days	**964**	4,736
181 to 365 days	**4,629**	907
Over 365 days	**5,379**	2,528
	40,502	12,955

16. DEPOSITS RECEIVED, OTHER PAYABLES AND ACCRUALS

	At 31 December 2017	At 31 December 2016
	RMB'000	*RMB'000*
Deposits received	**25,339**	60,721
Accruals	**13,574**	9,667
Other payables	**37,416**	38,749
	76,329	109,137

17. BANK AND OTHER BORROWINGS

	At 31 December 2017 *RMB'000*	At 31 December 2016 *RMB'000*
Current		
Interest bearing		
Secured		
– short-term bank loans *(Note (i))*	**170,000**	202,000
– short-term other loan *(Note (i))*	**–**	47,146
– current portion of long-term bank and other loans *(Notes (i), (iv) and (v))*	**331,104**	33,561
Unsecured		
– bank loans	**270,000**	245,000
– current portion of long-term other loans *(Note (iii))*	**41,960**	9,969
	813,064	537,676
Non-current		
Interest bearing		
Secured		
– long-term bank loans *(Note (i) and (vi))*	**102,162**	–
– long-term other loans *(Note (iv))*	**–**	311,621
Unsecured		
– long-term other loans *(Note (iii))*	**–**	53,236
	102,162	364,857
	915,226	902,533

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

	At 31 December 2017 *RMB'000*	At 31 December 2016 *RMB'000*
Within one year	**813,064**	537,676
More than one year, but not exceeding two years	**102,162**	364,857
	915,226	902,533

Notes:

(i) As at 31 December 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 as at 31 December 2016 and 2017 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 31 December 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 and 2 August 2017, HK$10 million and HK$15 million of such borrowings was settled respectively. The remaining principal and interests of HK$51 million have been fully settled on 14 February 2018.

(iv) Long-term secured other loans of RMB222,715,000 as at 31 December 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 RMB58,652,000 as at 31 December 2017 (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 Chemicals Limited 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 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 of RMB49,737,000 as at 31 December 2017 (2016: nil) 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) Included in long-term bank loans as at 31 December 2017, the Group was granted a bank borrowing of HK$54 million (equivalent to approximately RMB45 million) on 29 December 2017. Subsequent to the end of reporing period, the Group has received the drawdown in full on 3 January 2018.

(vii) As at 31 December 2017, secured borrowings amounted to RMB70,000,000 (2016: RMB92,000,000) and unsecured borrowings amounted to RMB135,000,000 (2016: RMB163,205,000) were guaranteed by directors of the Company, respectively.

18. SHARE CAPITAL

Authorised share capital:	**Number of shares**	**Amount**	**Amount**
	'000	*US$*	*RMB'000*
As at 1 January 2017			
Ordinary share at US$0.0001 each	500,000	50,000	309
Increase in authorised share capital *(note (a))*	499,500,000	49,950,000	340,140
As at 31 December 2017			
Ordinary share at US$0.0001 each	500,000,000	50,000,000	340,449
Issued share capital:			
As at 1 January 2017	460,000,000	46,000	283
Issue of new shares *(note (b))*	160,000,000	16,000	109
As at 31 December 2017	620,000,000	62,000	392

Notes:

(a) 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.

(b) On 10 July 2017, 160,000,000 shares of US$0.0001 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 RMB131,226,223, which net off with the related share issue expense of RMB16,228,907.

19. RELATED PARTY TRANSACTIONS AND BALANCES

(a) In addition to transactions and balances detailed elsewhere in the consolidated financial statements, the Group had the following material transactions with related parties during each of the reporting period:

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Purchase of raw materials from related parties		
Wang Zhijiang	**–**	7,335
Wang Yuhong	**–**	21,077

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.

(b) Compensation of key management personnel of the Group

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Short-term employee benefits	**1,453**	1,641
Retirement benefit scheme contributions	**22**	25
Share-based payment expenses	**1,085**	–
Total compensation paid to key management personnel	**2,560**	1,666

20. CAPITAL COMMITMENTS

	At 31 December 2017	At 31 December 2016
	RMB'000	*RMB'000*
Commitments for the acquisition of property, plant and equipment:		
– contracted for but not provided	**28,466**	14,968

21. CONTINGENT LIABILITIES

As at 31 December 2017, neither the Group nor the Company had any significant contingent liabilities (2016: nil).

22. EVENTS AFTER THE END OF THE REPORTING PERIOD

On 14 February 2018, the Company has entered into an unsecured borrowing agreement with Bloom Ocean Investments Limited. The Company was granted a borrowing of approximately RMB41 million (equivalent to HK$51 million) for the settlement of an existing unsecured loan. The borrowing carried interest rate at 8% per annum and will be repaid in 2 years upon drawdown.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During the Reporting Period, we experienced an increase in revenue by approximately RMB401.5 million, or 28%, from approximately RMB1,457.5 million for the year ended 31 December 2016 to approximately RMB1,859.0 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 RMB1,396 per tonne during the Reporting Period, representing an increase of approximately 29% from RMB1,081 per tonne during year ended 31 December 2016. The average selling price of our methanol products was approximately RMB1,843 per tonne during the Reporting Period, representing an increase of approximately 33% from RMB1,381 per tonne during the year ended 31 December 2016. Our gross profit increased by approximately RMB40.4 million, or 27%, from approximately RMB149.8 million for the year ended 31 December 2016 to approximately RMB190.2 million for the Reporting Period. However, as the percentage increase of cost of sales was about the same as the percentage increase of revenue during the Reporting Period, our overall gross profit margin remained at a similar level for the Reporting Period as compared to the year ended December 2016.

OPERATING AND FINANCIAL REVIEW

Revenue by Products

	Year ended 31 December 2017	**Year ended 31 December 2016**	**% Change**
	RMB'000	*RMB'000*	+/(-)
Urea	1,597,696	1,308,987	22
Methanol	160,671	114,879	40
Other by-products	100,588	33,657	199
Total	**1,858,955**	**1,457,523**	**28**

Urea

Revenue from urea increased by approximately RMB288.7 million, or 22%, from approximately RMB1,309.0 million for the year ended 31 December 2016 to approximately RMB1,597.7 million during the Reporting Period, as the average selling price of our urea increased by approximately RMB315 per tonne, or 29%, from approximately RMB1,081 per tonne for the year ended 31 December 2016 to approximately RMB1,396 per tonne for the Reporting Period.

Methanol

Revenue from methanol increased by approximately RMB45.8 million, or 40%, from approximately RMB114.9 million for the year ended 31 December 2016 to approximately RMB160.7 million during the Reporting Period, as the average selling price of our methanol increased by approximately RMB462 per tonne, or 33%, from approximately RMB1,381 per tonne for the year ended 31 December 2016 to approximately RMB1,843 per tonne for the Reporting Period.

Gross Profit and Gross Profit Margin

	Year ended 31 December 2017		Year ended 31 December 2016			
	Gross Profit	**Margin**	**Gross Profit**	**Margin**	**Gross Profit Change**	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Urea	131,148	8.2	126,212	9.6	4,936	4
Methanol	21,687	13.5	12,821	11.2	8,866	69
Other by-products	37,376	37.2	10,721	31.9	26,655	249
Total	**190,211**	**10.2**	**149,754**	**10.3**	**40,457**	**27**

Our gross profit increased by approximately RMB40.4 million, or 27%, from approximately RMB149.8 million for the year ended 31 December 2016 to approximately RMB190.2 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. Our gross profit margin remained at a similar level during the Reporting Period as compared to the year ended 31 December 2016.

Other income

Other income decreased by approximately RMB1.6 million, or 16%, from approximately RMB9.9 million for the year ended 31 December 2016 to approximately RMB8.3 million for the Reporting Period, primarily due to a decrease of government grant, which was partially offset by an increase in our interest income generated from loan receivable in the Reporting Period (2016: Nil).

Other gains and losses, net

Other gains (net) of approximately RMB5.0 million recorded during the Reporting Period was mainly due to foreign exchange gain of HKD to RMB, while foreign exchange loss of approximately RMB10.7 million was incurred for the corresponding period in 2016.

Administrative expenses

Administrative expenses increased by approximately RMB17.9 million, or 36%, from approximately RMB49.3 million for the year ended 31 December 2016 to approximately RMB67.2 million for the Reporting Period, primarily due to increase of director remuneration, legal and professional fees, consultancy fees and the one-off listing expenses.

Distribution expenses

Distribution expenses increased by approximately RMB2.0 million, or 97%, from approximately RMB2.1 million for the year ended 31 December 2016 to approximately RMB4.1 million for the Reporting Period, primarily due to the increase of transportation cost.

Finance costs

Finance costs decreased by approximately RMB7.3 million, or 11%, from approximately RMB68.1 million for the year ended 31 December 2016 to approximately RMB60.8 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 RMB6.4 million, or 36%, from approximately RMB18.1 million for the year ended 31 December 2016 to approximately RMB24.5 million for the Reporting Period, primarily due to an increase in profit before income tax.

Profit for the year

Profit for the year increased by approximately RMB28.1 million or 149% from approximately RMB18.8 million for the year ended 31 December 2016 to approximately RMB46.9 million for the Reporting Period. This was mainly due to a combination of factors including the increase in gross profit of approximately RMB40.4 million, the increase in other gains or losses (net) of approximately RMB15.6 million and the decrease in finance cost by approximately RMB7.3 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 distribution expenses by approximately RMB17.9 million and RMB2.0 million respectively.

CAPITAL STRUCTURE

As at 31 December 2017, the Group had net assets of approximately RMB910.8 million (as at 31 December 2016: approximately RMB739.9 million), comprising of non-current assets of approximately RMB1,365.8 million (as at 31 December 2016: approximately RMB1,417.7 million), and current assets approximately RMB601.8 million (as at 31 December 2016: approximately RMB370.0 million), which primarily consist of cash and bank balances amounted to approximately RMB177.2 million (as at 31 December 2016: approximately RMB162.4 million). Moreover, inventories amounted to approximately RMB76.6 million (as at 31 December 2016: approximately RMB66.8 million) and prepayments, deposit and other receivables amounted to approximately RMB244.9 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 RMB339.1 million as at 31 December 2017 (as at 31 December 2016: approximately RMB297.0 million). Major current liabilities include trade payables amounted to approximately RMB40.5 million (as at 31 December 2016: approximately RMB13.0 million), deposits received, other payables and accruals amounted to approximately RMB76.3 million (as at 31 December 2016: approximately RMB109.1 million) and interest-bearing bank and other borrowings amounted to RMB813.1 million (as at 31 December 2016: approximately RMB537.7 million).

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2017, the Group had cash and bank balances of approximately RMB177.2 million (as at 31 December 2016: approximately RMB162.4 million) and had total interest-bearing bank borrowings of approximately RMB915.2 million (as at 31 December 2016: approximately RMB902.5 million). The Group's interest-bearing bank borrowings bear interests ranging from 3.30% to 11.28% (as at 31 December 2016: 4.30% to 11.28%) per annum.

As at 31 December 2017, total current and non-current bank and other borrowings of the Group repayable within one year and after one year were approximately RMB813.1 million and RMB102.1 million respectively (as at 31 December 2016: approximately RMB537.7 million and RMB364.9 million respectively).

As at 31 December 2017, the gearing ratio for the Group was 0.81 (as at 31 December 2016: 1.00), based on net debt of approximately RMB738.1 million (as at 31 December 2016: approximately RMB740.1 million) and equity attributable to owners of approximately RMB910.8 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

2017 was a year full of challenges and opportunities. The Company successfully achieved its milestone with its listing on the Main Board of the Stock Exchange on 11 July 2017 ("**Listing Date**"). The process of industry upgrade and consolidation within the urea industry provided a great backdrop for the development of urea market in the PRC and opportunity for the continued growth in the Group's business. In addition, the Group's business strategy to increase its production of other high quality and high value-added by-products has also started to contribute more revenue and profit to the Group.

Due to the continuous improvement of both domestic and international macroeconomic environment, the elimination of obsolete and inefficient urea production and the rebalancing in the supply and demand of urea market, the overall market prices for urea and other by-products are expected to sustain its upward trend. In addition, the continuously wider applications of urea products into different industrial usages will also increase the demand in urea products and consumption, which in turn will further benefit the Group's business.

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 believes that it will continue to improve the quality and efficiency of its production and further reduce production costs by continuously monitoring the latest market development and production technologies. The Group will also seize opportunity by expanding its value chain into different products with higher profit margin and increasing the Group's production capacity by exploring different strategic relationships and acquisition opportunities in order to strengthen and grow its current market and industry position while maximizing shareholder value.

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 31 December 2017, capital commitment of the Group which had been contracted for but not provided in the financial statements was approximately RMB28.5 million (as at 31 December 2016: RMB15.0 million).

CHARGE ON ASSETS

As at 31 December 2017 and 31 December 2016, the Group's secured short-term bank loans, short-term other loans 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 RMB222.7 million as at 31 December 2017 (as at 31 December 2016: RMB251.7 million) 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 31 December 2017, the Group did not have any material contingent liabilities (as at 31 December 2016: Nil).

EMPLOYEES AND EMOLUMENT POLICY

As at 31 December 2017, the Group employed a total of 1,298 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 RMB97.0 million (year ended 31 December 2016: RMB95.9 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. No share options have been granted since the Listing Date and up to the date of this announcement.

MATERIAL ACQUISITIONS AND DISPOSAL OF SUBSIDIARIES AND ASSOCIATED COMPANIES

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

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

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 31 December 2017, neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

UPDATE ON THE USE OF PROCEEDS

As announced by the Company on 15 December 2017, certain arrangements have been made with China Minsheng Banking Corp., Ltd, Hong Kong Branch in relation to the intended use of the net proceeds from the global offering of the shares of the Company (the "**Global Offering**"). The Board considers that such arrangements do not constitute any change to the proposed use of proceeds as disclosed in the prospectus of the Company dated 28 June 2017. Please refer to the announcement of the Company dated 15 December 2017 for further details. As at 31 December 2017, the Company has used approximately RMB26.9 million to purchase, construct and install new environmental protection facility and approximately RMB7.9 million to repay part of the two outstanding term loans to two independent third parties, out of the net proceeds from the Global offering.

PROPOSED FINAL DIVIDEND

The Board recommended the payment of a final dividend of HKD0.02 cents per ordinary share, absorbing a total amount of about HKD12.4 million, in respect of the year ended 31 December 2017 (the "**Proposed Final Dividend**") (2016: Nil), which is subject to the approval of the shareholders of the Company at the forthcoming annual general meeting of the Company to be held on Thursday, 24 May 2018 (the "**2018 AGM**"). The proposed final dividend is expected to be paid on Friday, 15 June 2018 to all shareholders whose names to be appeared on the register of members of the Company on Thursday, 31 May 2018.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Friday, 18 May 2018 to Thursday, 24 May 2018 (both days inclusive) for the purpose of determining the right to attend and vote at the 2018 AGM. In order to be qualified for attending and voting at the 2018 AGM, unregistered holders of shares of the Company should ensure that all share transfer documents accompanied by the corresponding share certificates are lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Thursday, 17 May 2018.

Conditional on the passing of the resolution approving the declaration of the Proposed Final Dividend at the 2018 AGM, the register of members of the Company will also be closed from Wednesday, 30 May 2018 to Thursday, 31 May 2018 (both days inclusive) for the purpose of determining the entitlement to the Proposed Final Dividend. In order to be qualified for the Proposed Final Dividend (subject to the approval of the shareholders at the 2018 AGM), unregistered holders of shares of the Company should ensure that all share transfer documents accompanied by the corresponding share certificates are lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at the address stated above for registration not later than 4:30 p.m. on Tuesday, 29 May 2018.

AUDIT COMMITTEE

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 annual results for the Reporting Period.

SCOPE OF WORK OF BDO LIMITED

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit and loss and other comprehensive income and the related notes thereto for the year ended 31 December 2017 as set out in this announcement have been agreed by the Company's auditor, BDO Limited, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by BDO Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by BDO Limited on this announcement.

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 31 December 2017.

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 since the Listing Date and up to 31 December 2017.

PUBLICATION OF FINAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

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

APPRECIATION

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

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

Hong Kong, 23 March 2018

As at the date of this announcement, the Board comprises Mr. Wang Zhihe, Mr. Sun Yi, Mr. Sun Zushan and Mr. Xu Xijiang as executive Directors; and Ms. Lin Xiuxiang, Mr. Liu Jincheng and Mr. Ng Sai Leung as independent non-executive Directors.