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 2018

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 2018 (the "**Reporting Period**"). The relevant financial figures for the corresponding period or dates in 2017 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 2018

	Notes	Year ended 31 December **2018** *RMB'000*	2017 *RMB'000*
Revenue	*4*	**2,285,619**	1,858,955
Cost of sales		**(1,992,983)**	(1,668,744)
Gross profit		**292,636**	190,211
Other income	*4*	**11,418**	8,293
Other gains or losses, net	*5*	**(3,794)**	4,957
Administrative expenses		**(78,331)**	(67,182)
Distribution expenses		**(2,339)**	(4,078)
Finance costs	*7*	**(53,784)**	(60,770)
Profit before income tax	*8*	**165,806**	71,431
Income tax expenses	*9*	**(66,142)**	(24,548)
Profit for the year		**99,664**	46,883
Other comprehensive income that may be reclassified to profit or loss in subsequent periods			
Exchange differences on translation of foreign operation		**(2,026)**	(8,445)
Total comprehensive income for the year attributable to owners of the Company		**97,638**	38,438
		RMB cents	*RMB cents*
Earnings per share for profit attributable to the owners of the Company			
– Basic	*11*	**16.1**	8.7
– Diluted	*11*	**16.1**	8.7

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

		As at 31 December	
		2018	2017
	Notes	***RMB'000***	*RMB'000*
Non-current assets			
Property, plant and equipment	*12*	**1,172,713**	1,218,606
Investment property		**6,446**	6,710
Prepaid land lease payments		**83,582**	85,683
Prepayments for equipment	*14*	**5,365**	3,507
Restricted bank deposits		**51,032**	51,301
Total non-current assets		**1,319,138**	1,365,807
Current assets			
Inventories	*13*	**92,952**	76,609
Prepaid land lease payments		**3,172**	2,079
Prepayments, deposits and other receivables	*14*	**106,913**	244,933
Loan receivable		**90,108**	89,994
Restricted bank deposits		**–**	11,038
Cash and bank balances		**215,493**	177,156
Total current assets		**508,638**	601,809

	Notes	As at 31 December 2018 RMB'000	2017 RMB'000
Current liabilities			
Trade payables	*15*	**56,471**	40,502
Deferred revenue		**3,253**	3,254
Contract liabilities	*4*	**30,450**	–
Deposits received, other payables and accruals	*16*	**62,770**	76,329
Short-term bank and other borrowings	*17*	**532,900**	440,000
Long-term bank and other borrowings – current portion	*17*	**–**	373,064
Income tax payable		**16,100**	3,848
Deferred tax liabilities		**3,480**	3,919
Total current liabilities		**705,424**	940,916
Net current liabilities		**(196,786)**	(339,107)
Non-current liabilities			
Long-term bank and other borrowings	*17*	**68,820**	102,162
Amount due to shareholder		**44,786**	–
Deferred revenue		**10,518**	13,771
Total non-current liabilities		**124,124**	115,933
Net assets		**998,228**	910,767
Capital and reserves attributable to owners of the Company			
Share capital	*18*	**392**	392
Reserves		**997,836**	910,375
Total equity		**998,228**	910,767

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 2018, the Group's current liabilities exceeded its current assets by RMB196,786,000 (2017: RMB339,107,000). 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 2018, the Group had obtained letters of intent from several reputable banks in the PRC in an aggregate amount of RMB356,400,000. 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 INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

(a) Adoption of new/revised IFRSs – effective on 1 January 2018

Annual Improvements to IFRSs 2014-2016 Cycle	Amendments to IFRS 1, First-time adoption of International Financial Reporting Standards
Annual Improvements to IFRSs 2014-2016 Cycle	Amendments to IAS 28, Investments in Associates and Joint Ventures
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions
IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers
Amendments to IFRS 15	Revenue from Contracts with Customers (Clarifications to IFRS 15)
Amendments to IAS 40	Transfers of Investment Property
IFRIC-Int 22	Foreign Currency Transactions and Advance Consideration

Annual Improvements to IFRSs 2014-2016 Cycle – Amendments to IFRS 1, First-time Adoption of International Financial Reporting Standards

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to IFRS 1, First-time Adoption of International Financial Reporting Standards, removing transition provision exemptions relating to accounting periods that had already passed and were therefore no longer applicable.

The adoption of these amendments has no impact on these financial statements as the periods to which the transition provision exemptions related have passed.

Annual Improvements to IFRSs 2014-2016 Cycle – Amendments to IAS 28, Investments in Associates and Joint Ventures

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to IAS 28, Investments in Associates and Joint Ventures, clarifying that a Venture Capital organisation's permissible election to measure its associates or joint ventures at fair value is made separately for each associate or joint venture.

The adoption of these amendments has no impact on these financial statements as the Group is not a venture capital organisation.

Amendments to IFRS 2 – Classification and Measurement of Share-Based Payment Transactions

The amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; share-based payment transactions with a net settlement feature for withholding tax obligations; and a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

The adoption of these amendments has no impact on these financial statements as the Group does not have any cash-settled share-based payment transaction and has no share-based payment transaction with net settlement features for withholding tax.

IFRS 9 – Financial Instruments

(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 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.

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.

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.

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** *RMB'000*	**Carrying amount as at 1 January 2018 under IFRS 9** *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.

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.

I. 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 twelve months ended 31 December 2018.

II. 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 twelve months ended 31 December 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.

(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 2018, 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.

IFRS 15 – Revenue from Contracts with Customers

IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue and related interpretations. IFRS 15 has established a five-step 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.

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 consolidated statement of financial position as at 1 January 2018. There was no material impact on the Groups' consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2018 and its consolidated statement of cash flow for the year ended 31 December 2018.

Impact on the consolidated statement of financial position as of 1 January 2018:

	RMB'000
Liabilities	
Current liabilities	
Deposits received, other payables 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.

Right of return

The Group's sales contracts with customer 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.

Amendments IFRS 15 – Revenue from Contracts with Customers (Clarifications to IFRS 15)

The amendments to IFRS 15 included clarifications on identification of performance obligations; application of principal versus agent; licenses of intellectual property; and transition requirements.

The adoption of these amendments has no impact on these financial statements as the Group had not previously adopted IFRS 15 and took up the clarifications in this, its first, year.

Amendments to IAS 40, Investment Property – Transfers of Investment Property

The amendments clarify that to transfer to or from investment properties there must be a change in use and provides guidance on making this determination. The clarification states that a change of use will occur when a property meets, or ceases to meet, the definition of investment property and there is supporting evidence that a change has occurred.

The amendments also re-characterise the list of evidence in the standard as a non-exhaustive list, thereby allowing for other forms of evidence to support a transfer.

The adoption of these amendments has no impact on these financial statements as the clarified treatment is consistent with the manner in which the Group has previously assessed transfers.

IFRIC-Int 22 – Foreign Currency Transactions and Advance Consideration

The Interpretation provides guidance on determining the date of the transaction for determining an exchange rate to use for transactions that involve advance consideration paid or received in a foreign currency and the recognition of a non-monetary asset or non-monetary liability. The Interpretations specifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part thereof) is the date on which the entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

The adoption of these amendments has no impact on these financial statements as the Group has not paid or received advance consideration in a foreign currency.

(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.

IFRS 16	Leases[1]
IFRIC-Int 23	Uncertainty over Income Tax Treatments[1]
Amendments to IFRS 9	Prepayment Features with Negative Compensation[1]
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures[1]
Amendments to IAS 1 (Revised) and IAS 8	Definition of Material[2]
Amendments to IFRS 3	Definition of Business[2]
Annual Improvements to IFRSs 2015-2017 Cycle	Amendments to IFRS 3, Business Combinations[1]
Annual Improvements to IFRSs 2015-2017 Cycle	Amendments to IFRS 11, Joint Arrangements[1]
Annual Improvements to IFRSs 2015-2017 Cycle	Amendments to IAS 12, Income Taxes[1]
Annual Improvements to IFRSs 2015-2017 Cycle	Amendments to IAS 23, Borrowing Costs[1]
IFRS 17	Insurance Contracts[3]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]

[1] Effective for annual periods beginning on or after 1 January 2019

[2] Effective for annual periods beginning on or after 1 January 2020

[3] Effective for annual periods beginning on or after 1 January 2021

[4] The amendments were originally intended to be effective for periods beginning on or after 1 January 2017. The effective date has now been deferred/removed. Early application of the amendments 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. In the following table, revenue is disaggregated by primary geographical market, major products and timing of revenue recognition:

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Revenue		
Primary geographical market		
– PRC	**2,285,619**	1,858,955
Major products		
– Sales of urea	**1,948,553**	1,597,696
– Sales of methanol	**171,377**	160,671
– Sales of liquid ammonia	**103,119**	48,559
– Sales of carbon dioxide	**39,839**	30,293
– Sales of LNG	**22,731**	21,736
Total revenue from contracts with customers	**2,285,619**	1,858,955
Timing of revenue recognition		
– At point in time	**2,285,619**	1,858,955
Other income is presented as follows:		
Sales of scrap materials	**81**	19
Government grants	**3,253**	3,212
Bank interest income	**3,469**	551
Interest income from loan receivable	**3,712**	3,713
Others	**903**	798
	11,418	8,293
Total revenue and other income	**2,297,037**	1,867,248

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

	31 December 2018	1 January 2018	31 December 2017
	RMB'000	*RMB'000*	*RMB'000*
Contract liabilities	**30,450**	25,339	–

The contract liabilities mainly relate to the advance consideration received from customers, RMB25,339,000 of the contract liabilities as of 1 January 2018 has been recognised as revenue for the year ended 31 December 2018 from performance obligation satisfied during the year when goods were sold.

5. OTHER GAINS AND LOSSES, NET

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Foreign exchange (loss)/gain	**(3,794)**	4,957

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	
	2018	2017
	RMB'000	*RMB'000*
Interest expense in relation to:		
Bank and other loans wholly repayable within five years	**54,485**	60,770
Loan from a shareholder	**3,751**	–
	58,236	60,770
Less: Amount capitalised *(Note)*	**(4,452)**	–
	53,784	60,770

Note: Borrowing costs of RMB2,913,000 capitalised during the year arose on the general borrowing pool and are calculated by applying a capitalisation rate of 9% (2017: nil) to expenditure on qualifying assets. The remaining borrowing cost of RMB1,539,000 capitalised during the year arose on the specific borrowing granted for acquisition of property, plant and equipment on 29 December 2017.

8. PROFIT BEFORE INCOME TAX

Profit before income tax is arrived at after charging:

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Auditors' remuneration	**1,271**	943
Cost of inventories sold recognised as expense	**1,992,983**	1,668,744
Depreciation of property, plant and equipment	**145,887**	143,788
Amortisation of prepaid land lease payments	**5,130**	2,102
Impairment of other receivables	**10,717**	–
Depreciation of investment property	**264**	264
Listing expenses	**–**	13,163
Employee benefit expenses (including directors' remuneration)		
– Wages and salaries	**48,854**	48,388
– Discretionary bonuses	**21,594**	21,383
– Retirement benefit scheme contributions	**9,617**	8,493
– Staff welfare and other benefits	**21,070**	17,653
– Share-based payment expenses	**303**	1,085
	101,438	97,002

9. INCOME TAX EXPENSES

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Current tax – PRC		
Current tax	**62,450**	12,642
Withholding tax on dividends	**4,131**	5,806
Deferred tax		
(Credited)/charged for the year	**(439)**	6,100
	66,142	24,548

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

Pursuant to the resolution passed by the shareholders of the Company at the Company's annual general meeting held on 24 May 2018, a final dividend of HK2 cents per ordinary share in respect of the year ended 31 December 2017, absorbing a total amount of HK$12,400,000, was paid on 15 June 2018 to all shareholders whose names appeared on the register of members of the Company on 31 May 2018.

The Board recommended a final dividend of HK4 cents (2017: HK2 cents) per ordinary share, absorbing a total amount of about HK$24.8 million, in respect of the year ended 31 December 2018, which is subject to the approval of the shareholders of the Company at the forthcoming Annual General Meeting of the Company. 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 2019. The final dividends are converted from Hong Kong dollars to Renminbi at the rate at end of the reporting period.

11. EARNINGS PER SHARE

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

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Earnings for the purposes of basic earnings per share	**99,664**	46,883
Effect of dilutive potential ordinary shares:		
Remuneration shares	**–**	–
Earnings for the purposes of diluted earnings per share	**99,664**	46,883
Weighted average number of ordinary shares for the purposes of basic earnings per share	**620,222,422**	536,712,329
Effect of dilutive potential ordinary shares:		
Remuneration shares	**433,659**	729,100
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**620,656,081**	537,441,429

In calculating the diluted earnings per share attributable to the owners of the Company for the year ended 31 December 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 year ended 31 December 2018 is based on the earnings attributable to the owners of the Company of approximately RMB99,664,000 (2017: RMB46,883,000) and on the weighted average number of 620,656,081 ordinary shares during the year ended 31 December 2018 (2017: 537,441,429 shares).

12. PROPERTY, PLANT AND EQUIPMENT

No impairment losses were recognised in respect of property, plant and equipment for both years. During the year ended 31 December 2018, additions to property, plant and equipment approximately amounted to RMB99,996,000 (2017: RMB45,025,000). Assets with a net book value of RMB2,000 were disposed of by the Group during the year 31 December 2018 (2017: Nil), resulting in a net loss on disposal of RMB2,000 (2017: Nil).

13. INVENTORIES

	At 31 December 2018	At 31 December 2017
	RMB'000	*RMB'000*
Raw materials	**84,403**	56,923
Finished goods	**7,072**	12,924
Parts and spares	**1,477**	6,762
	92,952	76,609

14. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	At 31 December 2018 *RMB'000*	At 31 December 2017 *RMB'000*
Prepayments for distribution expenses	**–**	13
Prepayments for equipment	**5,386**	4,366
Value-added tax recoverable	**72,824**	107,086
Prepayments for coal suppliers	**4,411**	14,220
Other receivables for drawdown of bank borrowings	**–**	45,162
Other prepayments, deposits and other receivables	**29,657**	77,593
	112,278	248,440
Less: non-current portion	**(5,365)**	(3,507)
	106,913	244,933

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 2018 *RMB'000*	At 31 December 2017 *RMB'000*
0 to 90 days	**42,047**	29,530
91 to 180 days	**3,410**	964
181 to 365 days	**1,700**	4,629
Over 365 days	**9,314**	5,379
	56,471	40,502

16. DEPOSITS RECEIVED, OTHER PAYABLES AND ACCRUALS

	At 31 December 2018 RMB'000	At 31 December 2017 RMB'000
Deposit received	**–**	25,339
Accruals	**16,574**	13,574
Other payables	**46,196**	37,416
	62,770	76,329

17. BANK AND OTHER BORROWINGS

	At 31 December 2018 RMB'000	At 31 December 2017 RMB'000
Current		
Interest bearing		
Secured		
– short-term bank loans *(Note (i))*	**283,400**	170,000
– short-term other loans *(Note (i))*	**48,800**	–
– current portion of long-term bank and other loans *(Notes (i) and (v))*	**–**	331,104
Unsecured		
– short-term bank loans	**130,000**	270,000
– short-term other loans *(Note (iii))*	**70,700**	–
– current portion of long-term other loans *(Note (iv))*	**–**	41,960
	532,900	813,064
Non-current		
Interest bearing		
Secured		
– long-term bank loans *(Note (i))*	**68,820**	102,162
	601,720	915,226

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

	At 31 December 2018 RMB'000	At 31 December 2017 RMB'000
Within one year	**532,900**	813,064
More than one year, but not exceeding two years	**68,820**	102,162
	601,720	915,226

Notes:

(i) As at 31 December 2018, 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, leasehold land, inventories and bank deposits. As at 31 December 2017, the investment property was secured to the borrowings and the pledge was released during the year ended 31 December 2018. Short-term secured other loan as at 31 December 2018 were granted from a financial 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, 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) Short-term unsecured other loans as at 31 December 2018 represented borrowings granted from two independent third parties in total of RMB70.7 million, which carried fixed interest rate 9% per annum, where repayable within one year. Personal guarantee by a director of the Company has been provided to the respective loans.

(iv) All the remaining principal and interests of HK$51 million long-term unsecured other loans have been fully settled on 14 February 2018.

(v) All the long-term secured other loans have been fully settled to a non-bank financial institution, a financial leasing company and an independent third party.

(vi) At 31 December 2018, secured borrowings amounted to RMB27,000,000 (2017: RMB70,000,000) and unsecured borrowings amounted to RMB70,700,000 (2017: RMB135,000,000) were guaranteed by directors of the Company, respectively.

18. SHARE CAPITAL

	Number of shares	**Amount**	**Amount**
	'000	*US$*	*RMB'000*
Authorised share capital:			
As at 1 January 2018 and 31 December 2018			
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	46,000	283
Issue of new shares	160,000	16,000	109
As at 31 December 2017 and 1 January 2018	620,000	62,000	392
Issue of remuneration shares *(Note)*	472	47	–
As at 31 December 2018	620,472	62,047	392

Note: On 12 July 2018, 472,000 remuneration shares granted to a senior management were issued in accordance with the agreed terms at the subscription price of HK$1.06 per share.

19. RELATED PARTY TRANSACTIONS AND BALANCES

Compensation of key management personnel of the Group

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Short-term employee benefits	**1,319**	1,453
Retirement benefit scheme contributions	**23**	22
Share-based payment expenses	**303**	1,085
Total compensation paid to key management personnel	**1,645**	2,560

20. CAPITAL COMMITMENTS

	At 31 December 2018	At 31 December 2017
	RMB'000	*RMB'000*
Commitments for the acquisition of property, plant and equipment:		
– contracted for but not provided	**22,031**	28,466

21. CONTINGENT LIABILITIES

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

22. EVENTS AFTER THE END OF THE REPORTING PERIOD

On 20 February 2019, the Group early repaid a bank loan of approximately RMB45 million (equivalent to HK$54 million) which borrowed from China Minsheng Bank. The restricted bank deposits for pledging the bank loan of approximately RMB51 million was released. The released bank deposits has been partly used to repay the loan borrowed from a shareholder, Bloom Ocean Investments Limited on 25 February 2019.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During the Reporting Period, we experienced an increase in revenue by approximately RMB426.7 million, or 23.0%, from approximately RMB1,859.0 million for the year ended 31 December 2017 to approximately RMB2,285.7 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 Reporting Period. The average selling price of our urea products was approximately RMB1,734 per tonne during the Reporting Period, representing an increase of approximately 24.2% from RMB1,396 per tonne during the year ended 31 December 2017. The average selling price of our methanol products was approximately RMB2,020 per tonne during the Reporting Period, representing an increase of approximately 9.6% from RMB1,843 per tonne during the year ended 31 December 2017. Our gross profit increased by approximately RMB102.4 million, or 53.8%, from approximately RMB190.2 million for the year ended 31 December 2017 to approximately RMB292.6 million for the Reporting Period. 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

	Year ended 31 December 2018	**Year ended 31 December 2017**	**% Change**
	RMB'000	*RMB'000*	+/(-)
Urea	1,948,553	1,597,696	22.0%
Methanol	171,377	160,671	6.7%
Other by-products	165,689	100,588	64.7%
Total	**2,285,619**	**1,858,955**	**23.0%**

Urea

Revenue from urea increased by approximately RMB350.9 million, or 22.0%, from approximately RMB1,597.7 million for the year ended 31 December 2017 to approximately RMB1,948.6 million during the Reporting Period, as the average selling price of our urea increased by approximately RMB338 per tonne, or 24.2%, from approximately RMB1,396 per tonne for the year ended 31 December 2017 to approximately RMB1,734 per tonne for the Reporting Period.

Methanol

Revenue from methanol increased by approximately RMB10.7 million, or 6.7%, from approximately RMB160.7 million for the year ended 31 December 2017 to approximately RMB171.4 million during the Reporting Period, as the average selling price of our methanol increased by approximately RMB177 per tonne, or 9.6%, from approximately RMB1,843 per tonne for the year ended 31 December 2017 to approximately RMB2,020 per tonne for the Reporting Period.

Cost of sales

Our cost of sales increased by approximately RMB324.3 million, or 19.4%, from approximately RMB1,668.7 million for the year ended 31 December 2017 to approximately RMB1,993.0 million for the Reporting Period, primarily due to the increase in our average purchase price of coal, which resulted in an increase in our costs of raw materials. The increase of our costs of sales has also taken into account the impact of the provision for utilisation of the prepaid value added tax of approximately RMB53.6 million, principally as a result of the output value added tax rate being lower than the input value added tax rate, which led to some input value added tax cannot be fully deductible and the prudent approach for the cost treatment of certain input value added tax attributable to certain suppliers which may not be tax deductible.

Gross Profit and Gross Profit Margin

	Year ended 31 December 2018		Year ended 31 December 2017			
	Gross Profit	**Margin**	**Gross Profit**	**Margin**	**Gross Profit Change**	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Urea	226,298	11.6	131,148	8.2	95,150	72.6
Methanol	6,954	4.1	21,687	13.5	(14,733)	(67.9)
Other by-products	59,384	35.8	37,376	37.2	22,008	58.9
Total	**292.636**	**12.8**	**190,211**	**10.2**	**102,425**	**53.8**

Our gross profit increased by approximately RMB102.4 million, or 53.8%, from approximately RMB190.2 million for the year ended 31 December 2017 to approximately RMB292.6 million for the Reporting Period, primarily due to our increase in revenue resulting from the increase in our selling price of urea, methanol and other by-products. As a result, our gross profit margin increased from approximately 10.2% for the year ended 31 December 2017 to approximately 12.8% for the Reporting Period.

Other income

Other income increased by approximately RMB3.1 million, or 37.7%, from approximately RMB8.3 million for the year ended 31 December 2017 to approximately RMB11.4 million for the Reporting Period, primarily due to an increase in our bank interest income generated in the Reporting Period.

Other gains and losses, net

Other losses (net) of approximately RMB3.8 million recorded during the Reporting Period was mainly due to RMB depreciated against HKD, and thus more HKD loan would be repaid in monetary terms of RMB. While for the year ended 31 December 2017, other gains (net) of approximately RMB5.0 million recorded, it was mainly due to RMB appreciated against HKD, and thus less HKD loan would be repaid in monetary terms of RMB.

Administrative expenses

Administrative expenses increased by approximately RMB11.1 million, or 16.6%, from approximately RMB67.2 million for the year ended 31 December 2017 to approximately RMB78.3 million for the Reporting Period, primarily due to the increase of director remuneration, consultancy fee and impairment loss of other receivables which was partially offset by the decrease in listing expenses.

Distribution expenses

Distribution expenses decreased by approximately RMB1.8 million, or 42.6%, from approximately RMB4.1 million for the year ended 31 December 2017 to approximately RMB2.3 million for the Reporting Period, primarily due to the decrease of transportation cost.

Finance costs

Finance costs decreased by approximately RMB7.0 million, or 11.5%, from approximately RMB60.8 million for the year ended 31 December 2017 to approximately RMB53.8 million for the Reporting Period, primarily due to general decrease in the level of borrowings and capitalisation of finance costs to expenditure on qualifying assets.

Taxation

Income tax expenses increased by approximately RMB41.6 million, or 169.4%, from approximately RMB24.5 million for the year ended 31 December 2017 to approximately RMB66.1 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 RMB52.8 million or 112.6% from approximately RMB46.9 million for the year ended 31 December 2017 to approximately RMB99.7 million for the Reporting Period. This was mainly due to the increase in gross profit of approximately RMB102.4 million, increase in other income of approximately RMB3.1 million, decrease in distribution expenses of approximately RMB1.8 million and decrease in finance costs of approximately RMB7.0 million during the Reporting Period. The increase in profit for the Reporting Period was partially offset by the increase in administrative expenses of approximately RMB11.1 million and income tax expenses of approximately RMB41.6 million, and the decrease in other gains or losses (net) of approximately RMB8.8 million.

CAPITAL STRUCTURE

As at 31 December 2018, the Group had net assets of approximately RMB998.2 million (as at 31 December 2017: approximately RMB910.8 million), comprising of non-current assets of approximately RMB1,319.1 million (as at 31 December 2017: approximately RMB1,365.8 million), and current assets of approximately RMB508.6 million (as at 31 December 2017: approximately RMB601.8 million), which primarily consist of cash and bank balances amounted to approximately RMB215.5 million (as at 31 December 2017: approximately RMB177.2 million). Moreover, inventories amounted to approximately RMB93.0 million (as at 31 December 2017: approximately RMB76.6 million) and prepayments, deposit and other receivables amounted to approximately RMB106.9 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 RMB196.8 million as at 31 December 2018 (as at 31 December 2017: approximately RMB339.1 million). Major current liabilities include trade payables amounted to approximately RMB56.5 million (as at 31 December 2017: approximately RMB40.5 million), deposits received, other payables and accruals amounted to approximately RMB62.8 million (as at 31 December 2017: approximately RMB76.3 million) and interest-bearing bank and other borrowings amounted to approximately RMB532.9 million (as at 31 December 2017: approximately RMB813.1 million).

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2018, the Group had cash and bank balances of approximately RMB215.5 million (as at 31 December 2017: approximately RMB177.2 million) and had total interest-bearing bank borrowings of approximately RMB601.7 million (as at 31 December 2017: approximately RMB915.2 million). The Group's interest-bearing bank borrowings bear interests ranging from 3.30% to 9.00% (as at 31 December 2017: 3.30% to 11.28%) per annum.

As at 31 December 2018, total current and non-current bank and other borrowings of the Group repayable within one year and after one year were approximately RMB532.9 million and RMB68.8 million respectively (as at 31 December 2017: approximately RMB813.1 million and RMB102.2 million respectively).

As at 31 December 2018, the gearing ratio for the Group was 0.43 (as at 31 December 2017: 0.81), based on net debt of approximately RMB431.0 million (as at 31 December 2017: approximately RMB738.1 million) and equity attributable to owners of approximately RMB998.2 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

Looking into 2019, given the chemical fertilizer industry's continual focus on the supply-side reform, the elimination of obsolete and inefficient urea production and the increasingly stringent environmental protection policy, it is anticipated that the overall urea industry will see further improvement.

The Group is confident that the constant upgrade of the existing facilities or investment in new technology with enhanced environmental protection management can elevate its market competitiveness and profitability as well as reinforce its leading market position as the primary coal-based urea producer in China. With respect to business development, the Group will sustain its effort to expand urea product offering, promote product diversification and improve product quality and production system, so as to strengthen the relationship with key customers and diversify the client base. The Group will expand its scope of business and market share through target-oriented acquisitions, joint ventures and partnerships.

The Company would like to take this opportunity to extend our heartfelt gratitude to the Board members, senior management and staff for their contribution to the Group and to all shareholders and business partners for their support. The wide recognition earned from the industry and capital market for its outstanding performance will continue to motivate and encourage the Group to forge ahead, make concerted effort and embrace opportunities and challenges for another year of excellence.

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 2018, capital commitment of the Group which had been contracted for but not provided in the financial statements was approximately RMB22.0 million (as at 31 December 2017: approximately RMB28.5 million).

CHARGE ON ASSETS

As at 31 December 2018, 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, leasehold land, inventories and bank deposits. As at 31 December 2017, the investment property was secured to the borrowings and the pledge was released during the year ended 31 December 2018. Short-term secured other loans were granted from financial leasing companies in the PRC.

CONTINGENT LIABILITIES

As at 31 December 2018, the Group did not have any material contingent liabilities (as at 31 December 2017: Nil).

EMPLOYEES AND EMOLUMENT POLICY

As at 31 December 2018, the Group employed a total of 1,269 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 RMB101.4 million (year ended 31 December 2017: RMB97.0 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.

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.

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 31 December 2018, the net proceeds had been applied for as follows:

	Actual Net proceeds	Amount utilized as at 31 December 2018	Unutilized net proceeds as at 31 December 2018
	HK$' million	*HK$' million*	*HK$' million*
Purchase of new equipment and the construction of new energy saving power generating facility	69.3	43.5	25.8
Purchase, construct and install new environmental protection facility	52.7	52.7	-
Repay part of two outstanding term loans to two independent third parties	14.8	14.8	-
Working capital and general corporate purposes	10.9	10.9	-
	147.7	121.9	25.8

PROPOSED FINAL DIVIDEND

The Board recommended the payment of a final dividend of HK4 cents per ordinary share, absorbing a total amount of about HK$24.8 million, in respect of the year ended 31 December 2018 (the "**Proposed Final Dividend**") (2017: HK2 cents), 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 Friday, 24 May 2019 (the "**2019 AGM**"). The proposed final dividend is expected to be paid on Monday, 17 June 2019 to all shareholders whose names to be appeared on the register of members of the Company on Friday, 31 May 2019.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Friday, 17 May 2019 to Friday, 24 May 2019 (both days inclusive) for the purpose of determining the right to attend and vote at the 2019 AGM. In order to be qualified for attending and voting at the 2019 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, 16 May 2019.

Conditional on the passing of the resolution approving the declaration of the Proposed Final Dividend at the 2019 AGM, the register of members of the Company will also be closed from Thursday, 30 May 2019 to Friday, 31 May 2019 (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 2019 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 Wednesday, 29 May 2019.

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 2018 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 Rules Governing the Listing of Securities on the Stock Exchange (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.

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

The PRC, 25 March 2019

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