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 2019

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 2019 (the "**Reporting Period**"). The relevant financial figures for the corresponding period or dates in 2018 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 2019

	Note	Year ended 31 December 2019 RMB'000	2018 RMB'000
Revenue	*4*	**2,121,592**	2,285,619
Cost of sales		**(1,806,179)**	(1,992,983)
Gross profit		**315,413**	292,636
Other income	*4*	**10,907**	11,418
Other losses, net	*5*	**(8,489)**	(3,794)
Administrative expenses		**(61,440)**	(78,331)
Distribution expenses		**(2,794)**	(2,339)
Finance costs	*7*	**(33,432)**	(53,784)
Profit before income tax	*8*	**220,165**	165,806
Income tax expenses	*9*	**(58,612)**	(66,142)
Profit for the year		**161,553**	99,664
Other comprehensive income that may be reclassified to profit or loss in subsequent periods			
Exchange differences on translation of foreign operation		**4,614**	(2,026)
Total comprehensive income for the year attributable to owners of the Company		**166,167**	97,638
Profit attributable to:			
– Owners of the Company		**161,553**	99,664
– Non-controlling interest		**–***	–
		161,553	99,664
Total comprehensive income attributable to:			
– Owners of the Company		**166,167**	97,638
– Non-controlling interest		**–***	–
		166,167	97,638
		RMB cents	*RMB cents*
Earnings per share for profit attributable to the owners of the Company			
– Basic	*11*	**26.0**	16.1
– Diluted	*11*	**26.0**	16.1

* *Represents amount less than RMB1,000*

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

		As at 31 December	
		2019	2018
	Note	***RMB'000***	*RMB'000*
Non-current assets			
Property, plant and equipment	*12*	**1,115,260**	1,172,713
Investment property		**6,182**	6,446
Prepaid land lease payments		**–**	83,582
Right-of-use assets		**111,393**	–
Prepayments for equipment	*14*	**1,556**	5,365
Restricted bank deposits		**–**	51,032
Total non-current assets		**1,234,391**	1,319,138
Current assets			
Inventories	*13*	**80,903**	92,952
Prepaid land lease payments		**–**	3,172
Prepayments, deposits and other receivables	*14*	**72,283**	106,913
Loan receivable		**–**	90,108
Notes receivables		**188**	–
Restricted bank deposits		**5,000**	–
Cash and bank balances		**431,825**	215,493
Total current assets		**590,199**	508,638

	Note	As at 31 December 2019 *RMB'000*	 2018 *RMB'000*
Current liabilities			
Trade payables	*15*	**77,362**	56,471
Deferred revenue		**3,253**	3,253
Contract liabilities	*4*	**44,654**	30,450
Other payables and accruals	*16*	**65,163**	62,770
Lease liabilities		**110**	–
Short-term bank and other borrowings	*17*	**418,058**	532,900
Long-term bank borrowings – current portion	*17*	**24,000**	–
Income tax payable		**7,511**	16,100
Amount due to a non-controlling shareholder of a subsidiary		**40**	–
Total current liabilities		**640,151**	701,944
Net current liabilities		**(49,952)**	(193,306)
Non-current liabilities			
Long-term bank and other borrowings	*17*	**–**	68,820
Amount due to a shareholder		**–**	44,786
Lease liabilities		**28,213**	–
Deferred revenue		**7,266**	10,518
Deferred tax liabilities		**3,578**	3,480
Total non-current liabilities		**39,057**	127,604
Net assets		**1,145,382**	998,228
Capital and reserves attributable to owners of the Company			
Share capital	*18*	**392**	392
Reserves		**1,143,030**	997,836
Equity attributable to owners of the Company		**1,143,422**	998,228
Non-controlling interests		**1,960**	–
Total equity		**1,145,382**	998,228

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Dongguang Chemical Limited (the "**Company**") was incorporated in the Cayman Islands on 23 July 2013 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Pursuant to the special resolutions of shareholders dated 17 June 2015, the Company changed its name from Sino-Coal Chemical Limited (中煤化工有限公司) to Dongguang Chemical Limited (東光化工有限公司). Its shares are listed on the Stock Exchange of Hong Kong Limited on 11 July 2017. The registered office of the Company is located at Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman KY1-1111, Cayman Islands. The Company and its subsidiaries (collectively, the "**Group**") are principally engaged in manufacturing and selling urea in the People's Republic of China (the "**PRC**").

2. BASIS OF PREPARATION

The 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 2019, the Group's current liabilities exceeded its current assets by RMB49,952,000 (2018: RMB193,306,000). 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 2019, the Group had obtained letters of intent from several reputable banks in the PRC in an aggregate amount of RMB293.4 million. 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 consolidated 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 2019

The International Accounting Standard Board ("**IASB**") has issued a number of new or amended IFRSs, that are first effective for the current accounting period of the Group:

- IFRS 16, Leases
- IFRIC-Int 23, Uncertainty over Income Tax Treatments
- Amendments to IFRS 9, Prepayment Features and Negative Compensation
- Amendments to IAS 19, Plan Amendment, Curtailment or Settlement
- Amendments to IAS 28, Long-term Interests in Associates and Joint Ventures
- Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 included in Annual Improvements to IFRSs 2015-2017 Cycle

The impact of the adoption of IFRS 16 "Leases" has been summarised in below. The other new or amended IFRSs that are effective from 1 January 2019 did not have any significant impact on the Group's accounting policies.

(i) Impact of the adoption of IFRS 16

IFRS 16 brings significant changes in accounting treatment for lease accounting, primarily for accounting for lessees. It replaces IAS 17 "Leases" ("**IAS 17**"), IFRIC-Int 4 "Determining whether an Arrangement Contains a Lease", SIC-Int 15 "Operating Leases-Incentives" and SIC-Int 27 "Evaluating the Substance of Transactions Involving the Legal Form of a Lease". From a lessee's perspective, almost all leases are recognised in the consolidated statement of financial position as right-of-use assets and lease liabilities, with the narrow exception to this principle for leases which the underlying assets are of low-value or are determined as short-term leases. From a lessor's perspective, the accounting treatment is substantially unchanged from IAS 17. For details of IFRS 16 regarding its new definition of a lease, its impact on the Group's accounting policies and the transition method adopted by the Group as allowed under IFRS 16, please refer to section (ii) to (v) of this note.

The Group has applied IFRS 16 using the modified retrospective approach and recognised right-of-use assets and lease liabilities at the date of initial application for leases previously classified as operating leases applying IAS 17. The comparative information presented in 2018 has not been restated and continues to be reported under IAS 17 and related interpretations as allowed by the transition provision in IFRS 16.

The following tables summarised the impact of transition to IFRS 16 on consolidated statement of financial position as of 31 December 2018 to that of 1 January 2019 (increase/(decrease)):

	RMB'000
Consolidated statement of financial position as at 1 January 2019	
Non-current assets	
Right-of-use assets	114,121
Prepaid land lease payments – non-current portion	(83,582)
	30,539
Current assets	
Prepaid land lease payments – current portion	(3,172)
Current liabilities	
Accruals	(1,093)
Lease liabilities – current portion	137
	(956)
Non-current liabilities	
Lease liabilities – non-current portion	28,323

The following reconciliation explains how the operating lease commitments disclosed applying IAS 17 at the end of 31 December 2018 could be reconciled to the lease liabilities at the date of initial application recognised in the consolidated statement of financial position as at 1 January 2019:

	RMB'000
Reconciliation of operating lease commitment to lease liabilities	
Operating lease commitment as of 31 December 2018	103,916
Less: short term leases for which lease terms end within 31 December 2019	(70)
Less: discounting impact of future lease payments	(66,373)
Less: value-added tax included in operating lease commitments	(9,013)
Total lease liabilities as of 1 January 2019	28,460

The weighted average lessee's incremental borrowing rate applied to lease liabilities recognised in the consolidated statement of financial position as at 1 January 2019 is at the range of 6.56% to 7.04%.

(ii) *The new definition of a lease*

Under IFRS 16, a lease is defined as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration. A contract conveys the right to control the use of an identified asset for a period of time when the customer, throughout the period of use, has both: (a) the right to obtain substantially all of the economic benefits from use of the identified asset and (b) the right to direct the use of the identified asset.

For a contract that contains a lease component and one or more additional lease or non-lease components, a lessee shall allocate the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components, unless the lessee apply the practical expedient which allows the lessee to elect, by class of underlying asset, not to separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component.

The Group has elected not to separate non-lease components and account for all each lease component and any associated non-lease components as a single lease component for all leases.

(iii) Accounting as a lessee

Under IAS 17, a lessee has to classify a lease as an operating lease or a finance lease based on the extent to which risks and rewards incidental to ownership of a lease asset lie with the lessor or the lessee. If a lease is determined as an operating lease, the lessee would recognise the lease payments under the operating lease as an expense over the lease term. The asset under the lease would not be recognised in the statement of financial position of the lessee.

Under IFRS 16, all leases (irrespective of they are operating leases or finance leases) are required to be capitalised in the statement of financial position as right-of-use assets and lease liabilities, but IFRS 16 provides accounting policy choices for an entity to choose not to capitalise (i) leases which are short-term leases and/or (ii) leases for which the underlying asset is of low-value. The Group has elected not to recognise right-of-use assets and lease liabilities for low-value assets and leases for which at the commencement date have a lease term less than 12 months. The lease payments associated with those leases have been expensed on straight-line basis over the lease term.

The Group recognised a right-of-use asset and a lease liability at the commencement date of a lease.

Right-of-use asset

The right-of-use asset should be recognised at cost and would comprise: (i) the amount of the initial measurement of the lease liability (see below for the accounting policy to account for lease liability); (ii) any lease payments made at or before the commencement date, less any lease incentives received; (iii) any initial direct costs incurred by the lessee; and (iv) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. The Group measures the right-of-use assets applying a cost model. Under the cost model, the Group measures the right-to-use at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liability.

For the Group, leasehold land and buildings that were held for rental or capital appreciation purpose would continue to be accounted for under IAS 40 and would be carried at cost, less any accumulated depreciation and any impairment losses. For leasehold land which is held for own use would continue to be accounted for under IAS 16 and would be stated at cost and are amortised over the period of the lease. The adoption of IFRS 16 therefore does not have any significant impact on the measurement of these right-of-use assets, except for the reclassification from "prepaid land lease payments" to "right-of-use assets". Other than the above right-of-use assets, the Group also has leased plant and machineries under a lease agreement which the Group exercises its judgement and determines that it is a separate class of asset apart from the leasehold land which is held for own use. As a result, the right-of-use asset arising from the plant and machineries under a lease agreement is carried at depreciated cost.

Lease liability

The lease liability should be recognised at the present value of the lease payments that are not paid at the date of commencement of the lease. The lease payments shall be discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Group shall use the Group's incremental borrowing rate.

The following payments for the right-to-use the underlying asset during the lease term that are not paid at the commencement date of the lease are considered to be lease payments: (i) fixed payments less any lease incentives receivable; (ii) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at commencement date; (iii) amounts expected to be payable by the lessee under residual value guarantees; (iv) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and (v) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

Subsequent to the commencement date, a lessee shall measure the lease liability by: (i) increasing the carrying amount to reflect interest on the lease liability; (ii) reducing the carrying amount to reflect the lease payments made; and (iii) remeasuring the carrying amount to reflect any reassessment or lease modifications, for example, a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in substance fixed lease payments or a change in assessment to purchase the underlying asset.

(iv) Accounting as a lessor

As the accounting under IFRS 16 for a lessor is substantially unchanged from the requirement under IAS 17, the adoption of IFRS 16 does not have significant impact on these consolidated financial statements.

(v) Transition

As mentioned above, the Group has applied IFRS 16 using the modified retrospective approach and recognised right-of-use assets at the date of initial application for leases previously classified as operating leases applying IAS 17. The comparative information presented in 2018 has not been restated and continues to be reported under IAS 17 and related interpretations as allowed by the transition provision in IFRS 16.

The Group has recognised the lease liabilities at 1 January 2019 for leases previously classified as operating leases applying IAS 17 and measured those lease liabilities at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at 1 January 2019.

The Group has elected to recognise all the right-of-use assets at 1 January 2019 for leases previously classified as operating leases under IAS 17 as an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the consolidated statement of financial position immediately before 1 January 2019. For all these right-of-use assets, the Group has applied IAS 36 "Impairment of Assets" at 1 January 2019 to assess if there was any impairment as on that date.

The Group has also applied the following practical expedients: (i) applied a single discount rate to a portfolio of leases with reasonably similar characteristics; (ii) applied the exemption of not to recognise right-of-use assets and lease liabilities for leases with term that will end within 12 months of the date of initial application at 1 January 2019 and accounted for those leases as short-term leases; and (iii) exclude the initial direct costs from the measurement of the right-of-use asset at 1 January 2019.

In addition, the Group has also applied the practical expedients such that: (i) IFRS 16 is applied to all of the Group's lease contracts that were previously identified as leases applying IAS 17 and IFRIC-Int 4 and (ii) not to apply IFRS 16 to contracts that were not previously identified as containing a lease under IAS 17 and IFRIC-Int 4.

IFRIC-Int 23 – Uncertainty over Income Tax Treatments

The Interpretation supports the requirements of IAS 12, "Income Taxes", by providing guidance over how to reflect the effects of uncertainty in accounting for income taxes. Under the Interpretation, the entity shall determine whether to consider each uncertain tax treatment separately or together based on which approach better predicts the resolution of the uncertainty. The entity shall also assume the tax authority will examine amounts that it has a right to examine and have full knowledge of all related information when making those examinations. If the entity determines it is probable that the tax authority will accept an uncertain tax treatment, then the entity should measure current and deferred tax in line with its tax filings. If the entity determines it is not probable, then the uncertainty in the determination of tax is reflected using either the "most likely amount" or the "expected value" approach, whichever better predicts the resolution of the uncertainty.

Amendments to IAS 19 – Plan Amendments, Curtailment or Settlement

The amendments clarify that on amendment, curtailment or settlement of a defined benefit plan, a company should use updated actuarial assumptions to determine its current service cost and net interest for the period. Additionally, the effect of the asset ceiling is disregarded when calculating the gain or loss on any settlement of the plan and is dealt with separately in other comprehensive income.

Amendments to IFRS 9 - Prepayment Features with Negative Compensation

The amendments clarify that prepayable financial assets with negative compensation can be measured at amortised cost or at fair value through other comprehensive income if specified conditions are met – instead of at fair value through profit or loss.

Amendments to IAS 28 - Long-term Interests in Associates and Joint Ventures

The amendment clarifies that IFRS 9 applies to long-term interests ("**LTI**") in associates or joint ventures which form part of the net investment in the associates or joint ventures and stipulates that IFRS 9 is applied to these LTI before the impairment losses guidance within IAS 28.

Annual Improvements to IFRSs 2015-2017 Cycle – Amendments to IFRS 3, Business Combinations

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 3 which clarifies that when a joint operator of a business obtains control over a joint operation, this is a business combination achieved in stages and the previously held equity interest should therefore be remeasured to its acquisition date fair value.

Annual Improvements to IFRSs 2015-2017 Cycle – Amendments to IFRS 11, Joint Arrangements

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 11 which clarify that when a party that participates in, but does not have joint control of, a joint operation which is a business and subsequently obtains joint control of the joint operation, the previously held equity interest should not be remeasured to its acquisition date fair value.

Annual Improvements to IFRSs 2015-2017 Cycle – Amendments to IAS 12, Income Taxes

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 12 which clarify that all income tax consequences of dividends are recognised consistently with the transactions that generated the distributable profits, either in profit or loss, other comprehensive income or directly in equity.

Annual Improvements to IFRSs 2015-2017 Cycle – Amendments to IAS 23, Borrowing Costs

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 23 which clarifies that a borrowing made specifically to obtain a qualifying asset which remains outstanding after the related qualifying asset is ready for its intended use or sale would become part of the funds an entity borrows generally and therefore included in the general pool.

(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.

Amendments to IFRS 3	Definition of a Business[1]
Amendments to IAS 1 and IAS 8	Definition of Material[1]
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform[1]
IFRS 17	Insurance Contracts[2]
Amendments to IFRS 10 and IAS 28	Sales 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 2020
[2] Effective for annual periods beginning on or after 1 January 2021
[3] The amendments were originally intended to be effective for periods beginning on or after 1 January 2018. The effective date has now been deferred/removed. Early application of the amendments continue to be permitted.

The Group is not yet in a position to state whether these new pronouncements will result in substantial changes to the Group's accounting policies and financial statements.

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	
	2019	2018
	RMB'000	*RMB'000*
Revenue		
Primary geographical market		
– PRC	**2,121,592**	2,285,619
Major products		
– Sales of urea	**1,855,794**	1,948,553
– Sales of methanol	**131,785**	171,377
– Sales of liquid ammonia	**64,349**	103,119
– Sales of carbon dioxide	**47,431**	39,839
– Sales of LNG	**19,261**	22,731
– Sales of compound fertilisers	**2,972**	–
Total revenue from contracts with customers	**2,121,592**	2,285,619
Timing of revenue recognition		
– At a point in time	**2,121,592**	2,285,619
Other income is presented as follows:		
Sales of scrap materials	**110**	81
Government grants	**6,143**	3,254
Bank interest income	**1,792**	3,469
Other interest income	**326**	3,712
Rental income	**333**	–
Others	**2,203**	902
	10,907	11,418
Total revenue and other income	**2,132,499**	2,297,037

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

	31 December 2019	31 December 2018
	RMB'000	*RMB'000*
Contract liabilities from sale of goods	**44,654**	30,450

Contract liabilities mainly relate to the advance consideration received from customers. During the year ended 31 December 2019, RMB30,450,000 (2018: RMB25,339,000) of the contract liabilities has been recognised as revenue from performance obligation satisfied during the year when the goods were sold.

5. OTHER LOSSES, NET

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
Foreign exchange loss	**(8,489)**	(3,794)

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	
	2019	2018
	RMB'000	*RMB'000*
Interest expense in relation to:		
Bank and other loans wholly repayable within five years	**34,163**	54,485
Loan from a shareholder of the Company	**826**	3,751
Lease liabilities	**1,946**	–
	36,935	58,236
Less: Amount capitalised *(Note)*	**(3,503)**	(4,452)
	33,432	53,784

Note: Borrowing costs of RMB2,963,000 (2018: RMB2,913,000) capitalised during the year arose on the general borrowing pool and are calculated by applying a capitalisation rate of 6% (2018: 9%) to expenditure on qualifying assets. The remaining borrowing cost of RMB540,000 (2018: 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	
	2019	2018
	RMB'000	*RMB'000*
Auditors' remuneration	**1,233**	1,271
Cost of inventories sold recognised as expense	**1,806,179**	1,992,983
Depreciation of property, plant and equipment	**151,588**	145,887
Amortisation of prepaid land lease payments	**–**	5,130
Amortisation of right-of-use assets	**2,728**	–
Short-term lease payments	**293**	–
Impairment of prepayments and other receivables	**466**	10,717
Depreciation of investment property	**264**	264
Employee benefit expenses (including directors' remuneration)		
– Wages and salaries	**51,597**	48,854
– Discretionary bonuses	**21,463**	21,594
– Retirement benefit scheme contributions	**11,231**	9,617
– Staff welfare and other benefits	**17,649**	21,070
– Share-based payment expenses	**97**	303
	102,037	101,438

9. INCOME TAX EXPENSES

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
Current tax – PRC		
Current tax	**55,014**	62,450
Withholding tax on dividends	**3,500**	4,131
Deferred tax		
Charged/(Credited) for the year	**98**	(439)
	58,612	66,142

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 subsidiaries of the Group as determined in accordance with the PRC Corporation Income Tax Law which was approved and became effective on 1 January 2008 (the "**New Corporate Income Tax Law**").

10. DIVIDENDS AND DISTRIBUTION

Pursuant to the resolution passed by the shareholders of the Company at the Company's annual general meeting held on 24 May 2019, a final dividend of HK4 cents per ordinary share in respect of the year ended 31 December 2018, absorbing a total amount of HK$24,818,880, was paid on 17 June 2019 to all shareholders whose names appeared on the register of members of the Company on 31 May 2019.

The Board recommended a final dividend of HK6 cents (2018: HK4 cents) per ordinary share, absorbing a total amount of HK$37,256,640 (2018: HK$24,818,880), in respect of the year ended 31 December 2019, 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 2020. 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	
	2019	2018
	RMB'000	*RMB'000*
Earnings for the purposes of basic earnings per share	**161,553**	99,664
Effect of dilutive potential ordinary shares:		
Remuneration shares	**–**	–
Earnings for the purposes of diluted earnings per share	**161,553**	99,664
Weighted average number of ordinary shares for the purposes of basic earnings per share	**620,691,836**	620,222,422
Effect of dilutive potential ordinary shares:		
Remuneration shares	**–**	433,659
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**620,691,836**	620,656,081

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 and on the weighted average number of 620,656,081 ordinary shares during the year ended 31 December 2018. The remaining remuneration shares were granted to a senior management on 15 July 2019, therefore no dilution impact of calculating the diluted earnings per share attributable to the owners of the Company was applied for the year ended 31 December 2019.

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 2019, additions to property, plant and equipment approximately amounted to RMB94,135,000 (2018: RMB99,996,000). No disposals of property, plant and equipment were noted for the year ended 31 December 2019. Assets with a net book value of RMB2,000 were disposed of by the Group during the year 31 December 2018, resulting in a net loss on disposal of RMB2,000.

13. INVENTORIES

	At 31 December 2019	At 31 December 2018
	RMB'000	*RMB'000*
Raw materials	**71,183**	84,403
Finished goods	**6,615**	7,072
Parts and spares	**3,105**	1,477
	80,903	92,952

14. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	At 31 December 2019 *RMB'000*	At 31 December 2018 *RMB'000*
Other tax recoverable	**54,366**	91,370
Prepayments for utilities	**12,000**	–
Prepayments for consultancy fee	**–**	6,684
Prepayments for equipment	**1,556**	5,386
Prepayments for coal suppliers	**1,093**	4,411
Prepayments to employees	**920**	1,484
Other prepayments, deposits and other receivables	**3,904**	2,943
	73,839	112,278
Less: non-current portion	**(1,556)**	(5,365)
	72,283	106,913

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 2019 *RMB'000*	At 31 December 2018 *RMB'000*
0 to 90 days	**42,601**	42,047
91 to 180 days	**4,932**	3,410
181 to 365 days	**18,425**	1,700
Over 365 days	**11,404**	9,314
	77,362	56,471

16. OTHER PAYABLES AND ACCRUALS

	At 31 December 2019 *RMB'000*	At 31 December 2018 *RMB'000*
Accruals	**16,544**	16,574
Other payables *(note)*	**48,619**	46,196
	65,163	62,770

Note: Other payables mainly represented payables with construction and manufacturing companies for the purpose of plant improvements, equipment replacements and repairs and maintenance.

17. BANK AND OTHER BORROWINGS

	At 31 December 2019 *RMB'000*	At 31 December 2018 *RMB'000*
Current		
Interest bearing		
Secured		
– short-term bank loans *(Note (i))*	**308,400**	283,400
– short-term other loan *(Note (i))*	**49,658**	48,800
– current portion of long-term bank loan *(Note (i))*	**24,000**	–
Unsecured		
– short-term bank loans	**60,000**	130,000
– short-term other loans *(Notes (iii) and (iv))*	**–**	70,700
	442,058	532,900
Non-current		
Interest bearing		
Secured		
– long-term bank loans *(Note (i))*	**–**	68,820
	442,058	601,720

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

	At 31 December 2019 *RMB'000*	At 31 December 2018 *RMB'000*
Within one year	**442,058**	532,900
More than one year, but not exceeding two years	**–**	68,820
	442,058	601,720

Notes:

(i) As at 31 December 2019, the Group's secured short-term bank loans, short-term other loan and long-term bank loan were secured by certain of the Group's property, plant and equipment and leasehold land. As at 31 December 2018, the Group's secured short-term bank loans, short-term other loan and long-term bank loans were secured by certain of the Group's property, plant and equipment, leasehold land, inventories and bank deposits. Short-term secured other loan as at 31 December 2019 and 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 an indirect wholly-owned subsidiary of the Company, Hebei Dongguang, as are commonly found in lending arrangements with financial institutions. If Hebei Dongguang was to breach the covenants, the drawn down facilities would become repayable on demand. No breach of covenants is noted as at 31 December 2019.

(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 and ultimate shareholder of the Company has been provided to the respective loans. These loans were fully repaid on 18 July 2019.

(iv) At 31 December 2019, unsecured borrowings amounted to nil (2018: RMB70,700,000) were guaranteed by a director and ultimate shareholder of the Company.

18. SHARE CAPITAL

	Number of shares *'000*	**Amount** *US$*	**Amount** *RMB'000*
Authorised share capital:			
As at 1 January 2018, 31 December 2018, 1 January 2019 and 31 December 2019			
Ordinary share at US$0.0001 each	500,000,000	50,000,000	340,499
Issued share capital:			
As at 1 January 2018	620,000	62,000	392
Issue of shares *(Note)*	472	47	–
As at 31 December 2018 and 1 January 2019	620,472	62,047	392
Issue of shares *(Note)*	472	47	–
As at 31 December 2019	620,944	62,094	392

Note: On 12 July 2018 and 15 July 2019, 2 tranche of 472,000 remuneration shares each 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	
	2019	2018
	RMB'000	*RMB'000*
Short-term employee benefits	**1,422**	1,319
Retirement benefit scheme contributions	**16**	23
Share-based payment expenses	**97**	303
Total compensation paid to key management personnel	**1,535**	1,645

20. CAPITAL COMMITMENTS

	At 31 December 2019	At 31 December 2018
	RMB'000	*RMB'000*
Commitments for the acquisition of property, plant and equipment:		
– contracted for but not provided	**22,989**	22,031

21. CONTINGENT LIABILITIES

As at 31 December 2019, neither the Group nor the Company had any significant contingent liabilities (2018: nil).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During the Reporting Period, we experienced a decrease in revenue by approximately RMB164.1 million, or 7.2%, from approximately RMB2,285.7 million for the year ended 31 December 2018 to approximately RMB2,121.6 million for the Reporting Period, mainly due to the decreases in the average retail prices of urea, methanol and other by-products such as liquid ammonia and liquefied natural gas for the Reporting Period. The average selling price of our urea products was approximately RMB1,648 per tonne during the Reporting Period, representing a decrease of approximately 5.0% from RMB1,734 per tonne during the year ended 31 December 2018. The average selling price of our methanol products was approximately RMB1,561 per tonne during the Reporting Period, representing a decrease of approximately 22.7% from RMB2,020 per tonne during the year ended 31 December 2018. Our gross profit increased by approximately RMB22.8 million, or 7.8%, from approximately RMB292.6 million for the year ended 31 December 2018 to approximately RMB315.4 million for the Reporting Period. As a result, our gross profit margin also increased as the percentage decrease of cost of sales was greater than the percentage decrease of revenue during the Reporting Period.

OPERATING AND FINANCIAL REVIEW

Revenue by Products

	Year ended 31 December 2019 *RMB'000*	Year ended 31 December 2018 *RMB'000*	**% Change** +/(-)
Urea	**1,855,794**	1,948,553	-4.8%
Methanol	**131,785**	171,377	-23.1%
Other by-products	**134,013**	165,689	-19.1%
Total	**2,121,592**	**2,285,619**	**-7.2%**

Urea

Revenue from urea decreased by approximately RMB92.8 million, or 4.8%, from approximately RMB1,948.6 million for the year ended 31 December 2018 to approximately RMB1,855.8 million during the Reporting Period, as the average selling price of our urea decreased by approximately RMB86 per tonne, or 5.0%, from approximately RMB1,734 per tonne for the year ended 31 December 2018 to approximately RMB1,648 per tonne for the Reporting Period.

Methanol

Revenue from methanol decreased by approximately RMB39.6 million, or 23.1%, from approximately RMB171.4 million for the year ended 31 December 2018 to approximately RMB131.8 million during the Reporting Period, as the average selling price of our methanol decreased by approximately RMB459 per tonne, or 22.7%, from approximately RMB2,020 per tonne for the year ended 31 December 2018 to approximately RMB1,561 per tonne for the Reporting Period.

Cost of sales

Our cost of sales decreased by approximately RMB186.8 million, or 9.4%, from approximately RMB1,993.0 million for the year ended 31 December 2018 to approximately RMB1,806.2 million for the Reporting Period, primarily due to (i) the decrease in raw materials costs as no provision for prepaid value added tax was required to charge for the Reporting Period while such provision of approximately RMB54 million was made for the year ended 31 December 2018; and (ii) the decrease in electricity cost because of the upgrade of new energy saving power generating facility during the Reporting Period.

Gross Profit and Gross Profit Margin

	Year ended 31 December 2019		Year ended 31 December 2018			
	Gross Profit	**Margin**	Gross Profit	Margin	**Gross Profit Change**	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Urea	**273,225**	**14.7**	226,298	11.6	46,927	20.7
Methanol	**(15,458)**	**(11.7)**	6,954	4.1	(22,412)	(322.3)
Other by-products	**57,646**	**43.0**	59,384	35.8	(1,738)	(2.9)
Total	**315,413**	**14.9**	**292,636**	**12.8**	**22,777**	**7.8**

Our gross profit increased by approximately RMB22.8 million, or 7.8%, from approximately RMB292.6 million for the year ended 31 December 2018 to approximately RMB315.4 million for the Reporting Period, primarily due to the percentage decrease of cost of sales being greater than the percentage decrease of revenue. As a result, our gross profit margin increased from approximately 12.8% for the year ended 31 December 2018 to approximately 14.9% for the Reporting Period.

Other income

Other income decreased by approximately RMB0.5 million, or 4.5%, from approximately RMB11.4 million for the year ended 31 December 2018 to approximately RMB10.9 million for the Reporting Period, primarily due to the decrease in our interest income generated in the Reporting Period of approximately RMB5.0 million which was partially offset by the increase in government grant income of approximately RMB2.9 million.

Other losses, net

Other losses (net) of approximately RMB8.5 million (2018: RMB3.8 million) recorded during the Reporting Period was mainly due to RMB depreciated against HKD, and thus more HKD loan was repaid in monetary terms of RMB.

Administrative expenses

Administrative expenses decreased by approximately RMB16.9 million, or 21.6%, from approximately RMB78.3 million for the year ended 31 December 2018 to approximately RMB61.4 million for the Reporting Period, primarily due to the decrease in directors remuneration, consultancy fee and impairment loss of prepayments and other receivables.

Distribution expenses

Distribution expenses increased by approximately RMB0.5 million, or 19.4%, from approximately RMB2.3 million for the year ended 31 December 2018 to approximately RMB2.8 million for the Reporting Period, primarily due to the increase in staff costs.

Finance costs

Finance costs decreased by approximately RMB20.4 million, or 37.8%, from approximately RMB53.8 million for the year ended 31 December 2018 to approximately RMB33.4 million for the Reporting Period, primarily due to general decrease in the level of borrowings.

Taxation

Income tax expenses decreased by approximately RMB7.5 million, or 11.4%, from approximately RMB66.1 million for the year ended 31 December 2018 to approximately RMB58.6 million for the Reporting Period, primarily due to decrease in tax non-deductible expenses mainly from the provision for prepaid value added tax and impairment loss of prepayments and other receivables.

Profit for the year

Profit for the year increased by approximately RMB61.9 million or 62.1% from approximately RMB99.7 million for the year ended 31 December 2018 to approximately RMB161.6 million for the Reporting Period. This was mainly due to the increase in gross profit of approximately RMB22.8 million, decrease in administrative expenses of approximately RMB16.9 million, decrease in finance costs of approximately RMB20.4 million and decrease in income tax expenses of approximately RMB7.5 million during the Reporting Period. The increase in profit for the Reporting Period was partially offset by the decrease in other income of approximately RMB0.5 million, increase in other losses (net) of approximately RMB4.7 million and increase in distribution expenses of approximately RMB0.5 million.

CAPITAL STRUCTURE

As at 31 December 2019, the Group had net assets of approximately RMB1,145.4 million (as at 31 December 2018: approximately RMB998.2 million), comprising of non-current assets of approximately RMB1,234.4 million (as at 31 December 2018: approximately RMB1,319.1 million), and current assets of approximately RMB590.2 million (as at 31 December 2018: approximately RMB508.6 million), which primarily consist of cash and bank balances amounted to approximately RMB431.8 million (as at 31 December 2018: approximately RMB215.5 million). Moreover, inventories amounted to approximately RMB80.9 million (as at 31 December 2018: approximately RMB93.0 million) and prepayments, deposit and other receivables amounted to approximately RMB72.3 million (as at 31 December 2018: approximately RMB106.9 million) are also major current assets. The Group recorded a net current liability position of approximately RMB50.0 million as at 31 December 2019 (as at 31 December 2018: approximately RMB193.3 million). Major current liabilities include trade payables amounted to approximately RMB77.4 million (as at 31 December 2018: approximately RMB56.5 million), other payables and accruals amounted to approximately RMB65.2 million (as at 31 December 2018: approximately RMB62.8 million), contract liabilities amounted to approximately RMB44.7 million (as at 31 December 2018: approximately RMB30.5 million) and interest-bearing bank and other borrowings amounted to approximately RMB442.1 million (as at 31 December 2018: approximately RMB532.9 million).

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2019, the Group had cash and bank balances of approximately RMB431.8 million (as at 31 December 2018: approximately RMB215.5 million) and had total interest-bearing bank borrowings of approximately RMB442.1 million (as at 31 December 2018: approximately RMB601.7 million). The Group's interest-bearing bank borrowings bear interests ranging from 4.39% to 5.53% (as at 31 December 2018: 3.30% to 9.00%) per annum.

As at 31 December 2019, total current and non-current bank and other borrowings of the Group repayable within one year and after one year were approximately RMB442.1 million and nil respectively (as at 31 December 2018: approximately RMB532.9 million and RMB68.8 million respectively).

As at 31 December 2019, the gearing ratio for the Group was 0.01 (as at 31 December 2018: 0.43), based on net debt of approximately RMB10.3 million (as at 31 December 2018: approximately RMB431.0 million) and equity attributable to owners of approximately RMB1,145.4 million (as at 31 December 2018: approximately RMB998.2 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

Recently, although the COVID-19 epidemic has resulted in a slowdown of PRC domestic productivity and economic activities, the Group's subsidiary in the PRC has maintained a normal production during the period and has not been affected by the epidemic. In respect of operation, product transportation has sustained a considerable delay due to the Chinese New Year Holidays and the shutdown of freight and some downstream companies under the COVID-19 epidemic. However, since mid-February this year, as freight has gradually recovered and the fertilizer companies have a demand on fertilizers to secure springtime agriculture, shipments have increased, and product price has quickly recovered.

In addition, in order to encourage fertilizer companies to secure springtime agricultural production, the PRC government has introduced favourable policies accordingly, and has given important instructions in respect of domestic springtime agricultural production. It attaches great importance to "Sannong" work and arranges for springtime agricultural production so as to maintain a stable grain production. After the introduction of the springtime agriculture securing policy, the agricultural fertilizer market has gradually recovered. These aforementioned factors have very positive and favourable effects on the Group's production and operation.

Looking into 2020, the urea market in general is keeping a balance between supply and demand. It is believed that the urea market in this spring will draw more attention within the industry. With the continuous optimization of production capacity, the overall urea industry will continue to advance in a healthy and orderly direction. In order to have greater economic and social benefits, the Group will continue its research on energy-conserving and environmental-friendly technologies, and effectively reduce production costs by introducing new technologies and using new equipment. We will also keep optimizing our growth strategies, including effectively increasing production capacity, actively boosting production quality and efficiency, and expanding value chains to urea-related products such as automotive urea products. Furthermore, we will strengthen our strategic relationship with major customers and diversify our clientele, as well as identifying opportunities for strategic acquisitions.

Lastly, the Company would like to take this opportunity to extend our sincere gratitude to each shareholder, the management of the Company, all our employees and clients, and those who show care and support to our Group. Over the past year, all the employees of the Group worked relentlessly to improve the business and management of the Group amid complicated market conditions. The Group will adhere to the development philosophy of "Developing Companies, Creating Values, Enriching Employees, Serving Society", and commit itself to generating greater values to the society. Looking ahead, despite the global market and economic uncertainties, we believe that, with the firm support from our shareholders and a solid management base as well as the new green technologies, the Group, by putting forth a united effort, are well capable of meeting new challenges, adapting to market adjustments, creating considerable values for shareholders, and making greater achievements.

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 2019, capital commitment of the Group which had been contracted for but not provided in the financial statements was approximately RMB23.0 million (as at 31 December 2018: approximately RMB22.0 million).

CHARGE ON ASSETS

As at 31 December 2019, the Group's secured short-term bank loans, short-term other loan and long-term bank loan were secured by certain of the Group's property, plant and equipment and leasehold land. As at 31 December 2018, the Group's secured short-term bank loans, short-term other loan and long-term bank loans were secured by certain of the Group's property, plant and equipment, leasehold land, inventories and bank deposits. Short-term secured other loans were granted from financial leasing companies in the PRC.

CONTINGENT LIABILITIES

As at 31 December 2019, the Group did not have any material contingent liabilities (as at 31 December 2018: Nil).

EMPLOYEES AND EMOLUMENT POLICY

As at 31 December 2019, the Group employed a total of 1,295 employees (as at 31 December 2018: 1,269 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 RMB102.0 million (year ended 31 December 2018: RMB101.4 million). The Company has also adopted a share option scheme for the purpose of providing incentives and rewards to eligible participants, including the employees of the Group, for their contribution to the Group.

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 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 2019, the net proceeds had been applied for as follows:

	Actual Net proceeds *HK$'million*	Amount utilized as at 31 December 2019 *HK$'million*	Unutilized net proceeds as at 31 December 2019 *HK$'million*
Purchase of new equipment and the construction of new energy saving power generating facility	69.3	69.3	–
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	147.7	–

PROPOSED FINAL DIVIDEND

The Board recommended the payment of a final dividend of HK6 cents (2018: HK4 cents) per ordinary share, absorbing a total amount of about HK$37.3 million (2018: HK$24.8 million), in respect of the year ended 31 December 2019 (the "**Proposed Final Dividend**"), 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, 29 May 2020 (the "**2020 AGM**"). The proposed final dividend is expected to be paid on Friday, 19 June 2020 to all shareholders whose names to be appeared on the register of members of the Company on Monday, 8 June 2020.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 25 May 2020 to Friday, 29 May 2020 (both days inclusive) for the purpose of determining the right to attend and vote at the 2020 AGM. In order to be qualified for attending and voting at the 2020 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 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Friday, 22 May 2020.

Conditional on the passing of the resolution approving the declaration of the Proposed Final Dividend at the 2020 AGM, the register of members of the Company will also be closed from Friday, 5 June 2020 to Monday, 8 June 2020 (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 2020 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 Thursday, 4 June 2020.

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 2019 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, 24 March 2020

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.