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**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 2020**

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 2020 (the “**Reporting Period**”). The relevant financial figures for the corresponding period or dates in 2019 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 2020*

		<b>Year ended 31 December</b>	
		<b>2020</b>	<b>2019</b>
	<i>Note</i>	<b>RMB'000</b>	<b>RMB'000</b>
<b>Revenue</b>	4	<b>1,956,044</b>	2,121,592
Cost of sales		<u>(1,721,395)</u>	<u>(1,806,179)</u>
<b>Gross profit</b>		<b>234,649</b>	315,413
Other income	4	<b>12,681</b>	10,907
Other gains/(losses), net	5	<b>1,816</b>	(8,489)
Administrative expenses		<b>(57,180)</b>	(61,440)
Distribution expenses		<b>(3,202)</b>	(2,794)
Finance costs	7	<b>(17,275)</b>	(33,432)
<b>Profit before income tax</b>	8	<b>171,489</b>	220,165
Income tax expenses	9	<b>(45,004)</b>	(58,612)
Profit for the year		<b>126,485</b>	161,553
<b>Other comprehensive income that may be reclassified to profit or loss in subsequent periods</b>			
Exchange differences on translation of foreign operation		<u>(4,184)</u>	<u>4,614</u>
<b>Total comprehensive income for the year attributable to owners of the Company</b>		<b><u>122,301</u></b>	<b><u>166,167</u></b>
Profit attributable to:			
– Owners of the Company		<b>125,276</b>	161,553
– Non-controlling interest		<b>1,209</b>	–*
		<b><u>126,485</u></b>	<b><u>161,553</u></b>
Total comprehensive income attributable to:			
– Owners of the Company		<b>121,092</b>	166,167
– Non-controlling interest		<b>1,209</b>	–*
		<b><u>122,301</u></b>	<b><u>166,167</u></b>
		<i>RMB cents</i>	<i>RMB cents</i>
<b>Earnings per share for profit attributable to the owners of the Company</b>			
– Basic and diluted	11	<b><u>20.2</u></b>	<b><u>26.0</u></b>

\* Represents amount less than RMB1,000

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2020

		As at 31 December	
		2020	2019
	Note	RMB'000	RMB'000
<b>Non-current assets</b>			
Property, plant and equipment	12	1,110,279	1,115,260
Investment property		14,828	6,182
Right-of-use assets		117,430	111,393
Unlisted equity investment at fair value through other comprehensive income		40	–
Prepayments for equipment and land lease	14	8,405	1,556
<b>Total non-current assets</b>		<b>1,250,982</b>	<b>1,234,391</b>
<b>Current assets</b>			
Inventories	13	82,417	80,903
Trade receivables		8,491	–
Notes receivables		–	188
Prepayments, deposits and other receivables	14	50,058	72,283
Restricted bank deposits		–	5,000
Cash and bank balances		367,104	431,825
<b>Total current assets</b>		<b>508,070</b>	<b>590,199</b>

		<b>As at 31 December</b>	
		<b>2020</b>	2019
	<i>Note</i>	<b>RMB'000</b>	<i>RMB'000</i>
<b>Current liabilities</b>			
Trade payables	<i>15</i>	<b>62,923</b>	77,362
Deferred revenue		<b>2,444</b>	3,253
Contract liabilities	<i>4</i>	<b>64,814</b>	44,654
Other payables and accruals	<i>16</i>	<b>58,044</b>	65,163
Lease liabilities		<b>245</b>	110
Short-term bank and other borrowings	<i>17</i>	<b>281,000</b>	418,058
Long-term bank borrowings – current portion	<i>17</i>	–	24,000
Income tax payable		<b>10,088</b>	7,511
Amount due to a non-controlling shareholder of a subsidiary		<b>40</b>	40
		<u>479,598</u>	<u>640,151</u>
<b>Total current liabilities</b>		<b>479,598</b>	640,151
<b>Net current assets/(liabilities)</b>		<u>28,472</u>	<u>(49,952)</u>
<b>Non-current liabilities</b>			
Long-term bank and other borrowings	<i>17</i>	<b>10,000</b>	–
Lease liabilities		<b>28,154</b>	28,213
Deferred revenue		<b>4,820</b>	7,266
Deferred tax liabilities		<b>2,404</b>	3,578
		<u>45,378</u>	<u>39,057</u>
<b>Total non-current liabilities</b>		<b>45,378</b>	39,057
<b>Net assets</b>		<u>1,234,076</u>	<u>1,145,382</u>
<b>Capital and reserves attributable to owners of the Company</b>			
Share capital	<i>18</i>	<b>392</b>	392
Reserves		<b>1,230,515</b>	1,143,030
		<u>1,230,907</u>	<u>1,143,422</u>
Equity attributable to owners of the Company		<b>1,230,907</b>	1,143,422
<b>Non-controlling interests</b>		<u>3,169</u>	<u>1,960</u>
<b>Total equity</b>		<u>1,234,076</u>	<u>1,145,382</u>

## 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 except for unlisted equity investment at fair value through other comprehensive income, which is measured at fair value.

The outbreak of COVID-19 (the “**Outbreak**”) has developed rapidly in 2020 and significantly impacted entities and economic activities in varying sales globally. While there have been more immediate and pronounced disruptions in certain industries, its impact on the manufacturing and selling of urea and other chemical products in the PRC has been rather modest during the current reporting period. Nevertheless, as the Outbreak continues to evolve, it is challenging at this juncture to predict the full extent and duration of its impact to the business and the economy. Management has assessed the impact of COVID-19 across the Group, and up to the date of this announcement, has not identified any areas which had direct and material adverse impact caused by COVID-19 to the financial performance or position of the Group as at 31 December 2020.

### 3. ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”)

#### (a) Adoption of new or amended IFRSs

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:

- Amendments to IFRS 3, Definition of a Business
- Amendments to IAS 1 and IAS 8, Definition of Material
- Amendments to IAS 39, IFRS 7 and IFRS 9, Interest Rate Benchmark Reform
- Amendments to IFRS 16, COVID-19-Related Rent Concessions
- Revised Conceptual Framework for Financial Reporting

None of these new or amended IFRSs has a material impact on the Group’s results and financial position for the current or prior period. The Group has not early applied any new or amended IFRSs that is not yet effective for the current accounting period except for the Amendment to IFRS 16, COVID-19-Related Rent Concessions.

There were no rent concessions granted to the Group for the year ended 31 December 2020, therefore the early adoption of Amendments to IFRS 16 has no impact to the consolidated financial statements.

#### (b) New or amended IFRSs that have been issued but are not yet effective

The following new or amended 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 IAS 1, Classification of Liabilities as Current or Non-current<sup>4</sup>
- Amendments to IAS 16, Proceeds before Intended Use<sup>2</sup>
- Amendments to IAS 37, Onerous Contracts - Cost of Fulfilling a Contract<sup>2</sup>
- IFRS 17, Insurance Contracts<sup>4</sup>
- Amendments to IFRS 3, Reference to the Conceptual Framework<sup>3</sup>
- Amendments to IFRS 10 and IAS 28, Sale or Contribution of Assets between an Investor and its Associate or Joint Venture<sup>5</sup>
- Amendments to IAS 39, IFRS 4, IFRS 7, IFRS 9 and IFRS 16, Interest Rate Benchmark Reform – Phase 2<sup>1</sup>
- Annual Improvements to IFRSs 2018-2020<sup>2</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2021.

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2022.

<sup>3</sup> Effective for business combinations for which the date of acquisition is on or after the beginning of the first annual period beginning on or after 1 January 2022.

<sup>4</sup> Effective for annual periods beginning on or after 1 January 2023.

<sup>5</sup> The amendments shall be applied prospectively to the sale or contribution of assets occurring in annual periods beginning on or after a date to be determined.

The directors of the Company do not anticipate that the application of these new or revised IFRSs in the future will have impacts on the financial statements, except for the Amendments to IAS 37, Onerous Contracts - Cost of Fulfilling a Contract.

With respect to the Amendments to IAS 37, Onerous Contracts - Cost of Fulfilling a Contract, the directors of the company is currently assessing the impact that the application of the amendments will likely impact on the Group’s accounting policies in respect of the determination of when contracts are onerous, and the measurement of provision for onerous contracts recognized.

#### 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:

	<b>Year ended 31 December</b>	
	<b>2020</b>	2019
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
<b>Revenue</b>		
Primary geographical market		
– PRC	<b><u>1,956,044</u></b>	<u>2,121,592</u>
Major products		
– Sales of urea	<b>1,659,912</b>	1,855,794
– Sales of methanol	<b>97,851</b>	131,785
– Sales of liquid ammonia	<b>65,425</b>	64,349
– Sales of carbon dioxide	<b>63,029</b>	47,431
– Sales of LNG	<b>16,412</b>	19,261
– Sales of compound fertilisers	<b>18,560</b>	2,972
– Sales of vehicle urea solution	<b><u>34,855</u></b>	<u>–</u>
Total revenue from contracts with customers	<b><u>1,956,044</u></b>	<u>2,121,592</u>
Timing of revenue recognition		
– At a point in time	<b><u>1,956,044</u></b>	<u>2,121,592</u>
<b>Other income is presented as follows:</b>		
Sales of scrap materials	<b>(405)</b>	110
Government grants	<b>4,480</b>	6,143
Bank interest income	<b>1,296</b>	1,792
Other interest income	<b>–</b>	326
Rental income	<b>567</b>	333
Gain on financial assets at fair value through profit or loss	<b>6,759</b>	–
Others	<b><u>(16)</u></b>	<u>2,203</u>
	<b><u>12,681</u></b>	<u>10,907</u>
Total revenue and other income	<b><u>1,968,725</u></b>	<u>2,132,499</u>

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

	<b>31 December</b>	31 December
	<b>2020</b>	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Contract liabilities from sales of goods	<u><b>64,814</b></u>	<u>44,654</u>

Contract liabilities mainly relate to the advance consideration received from customers as sales deposit for reserving the future delivery of goods from the sale orders. RMB44,654,000 (2019: RMB30,450,000) of the contract liabilities has been recognised as revenue from performance obligation satisfied during the year when the goods were sold.

## 5. OTHER GAINS/(LOSSES), NET

	<b>Year ended 31 December</b>	
	<b>2020</b>	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Foreign exchange gains/(losses)	<u><b>1,816</b></u>	<u>(8,489)</u>

## 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	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
<b>Interest expense in relation to:</b>		
Bank and other loans wholly repayable within five years	16,968	34,163
Loan from a shareholder of the Company	–	826
Lease liabilities	1,967	1,946
	<u>18,935</u>	<u>36,935</u>
Less: Amount capitalised ( <i>Note</i> )	<u>(1,660)</u>	<u>(3,503)</u>
	<u>17,275</u>	<u>33,432</u>

*Note:* Borrowing costs of RMB1,660,000 (2019: RMB2,963,000) capitalised during the year arose on the general borrowing pool and are calculated by applying a capitalisation rate of 4% (2019: 6%) to expenditure on qualifying assets. No borrowing costs (2019: RMB540,000) was capitalised during the year arose on the specific borrowing granted for acquisition of property, plant and equipment as all specific borrowing was repaid in 2019.

## 8. PROFIT BEFORE INCOME TAX

Profit before income tax is arrived at after charging:

	Year ended 31 December	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Auditors' remuneration	1,343	1,233
Cost of inventories sold recognised as expense	1,721,395	1,806,179
Depreciation of property, plant and equipment	159,459	151,588
Amortisation of right-of-use assets	2,808	2,728
Short-term lease payments	243	293
Impairment of prepayments and other receivables	1,692	466
Depreciation of investment property	753	264
Employee benefit expenses (including directors' remuneration)		
– Wages and salaries	52,434	51,597
– Discretionary bonuses	19,944	21,463
– Retirement benefit scheme contributions	11,395	11,231
– Staff welfare and other benefits	17,746	17,649
– Share-based payment expenses	–	97
	<u>101,519</u>	<u>102,037</u>

## 9. INCOME TAX EXPENSES

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
<b>Current tax – PRC</b>		
Current tax	42,378	55,014
Withholding tax on dividends	3,800	3,500
<b>Deferred tax</b>		
(Credited)/Charged for the year	(1,174)	98
	<b>45,004</b>	<b>58,612</b>

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% (2019: 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 29 May 2020, a final dividend of HK6 cents per ordinary share in respect of the year ended 31 December 2019, absorbing a total amount of HK\$37,256,640, was paid on 19 June 2020 to all shareholders whose names appeared on the register of members of the Company on 8 June 2020.

The Board recommended a final dividend of HK5 cents (2019: HK6 cents) per ordinary share, absorbing a total amount of HK\$31,047,200 (2019: HK\$37,256,640) in respect of the year ended 31 December 2020, 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 2021. 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	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Earnings for the purposes of basic and diluted earnings per share	<u>125,276</u>	<u>161,553</u>
Weighted average number of ordinary shares for the purposes of basic and diluted earnings per share	<u>620,944,000</u>	<u>620,691,836</u>

No diluted earnings per share is presented as there was no potential ordinary shares in issue during the years ended 31 December 2020 and 2019.

## 12. PROPERTY, PLANT AND EQUIPMENT

No impairment losses were recognised in respect of property, plant and equipment for the years ended 31 December 2020 and 2019. During the year ended 31 December 2020, additions to property, plant and equipment approximately amounted to RMB163,877,000 (2019: RMB94,135,000) and buildings with carrying amount of RMB9,399,000 (2019: Nil) was transferred to investment property. No disposals of property, plant and equipment were noted for the year ended 31 December 2020 and 2019.

## 13. INVENTORIES

	At	At
	31 December 2020	31 December 2019
	<i>RMB'000</i>	<i>RMB'000</i>
Raw materials	70,624	71,183
Finished goods	8,185	6,615
Parts and spares	<u>3,608</u>	<u>3,105</u>
	<u>82,417</u>	<u>80,903</u>

#### 14. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	At 31 December 2020 <i>RMB'000</i>	At 31 December 2019 <i>RMB'000</i>
Other tax recoverable	32,308	54,366
Prepayments for utilities	12,000	12,000
Prepayments for equipment	610	1,556
Prepayments for acquisition of land leases	7,795	–
Prepayments for coal suppliers	1,212	1,093
Prepayments to employees	965	920
Other prepayments, deposits and other receivables	5,265	4,370
	<u>60,155</u>	<u>74,305</u>
Less: impairment loss on other receivables	(1,692)	(466)
	<u>58,463</u>	<u>73,839</u>

Represented by:

	At 31 December 2020 <i>RMB'000</i>	At 31 December 2019 <i>RMB'000</i>
Current portion	50,058	72,283
Non-current portion	8,405	1,556
	<u>58,463</u>	<u>73,839</u>

#### 15. TRADE PAYABLES

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

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

	At 31 December 2020 <i>RMB'000</i>	At 31 December 2019 <i>RMB'000</i>
0 to 90 days	25,682	42,601
91 to 180 days	3,043	4,932
181 to 365 days	652	18,425
Over 365 days	33,546	11,404
	<u>62,923</u>	<u>77,362</u>

## 16. OTHER PAYABLES AND ACCRUALS

	At 31 December 2020 RMB'000	At 31 December 2019 RMB'000
Accruals	12,200	16,544
Other payables ( <i>Note</i> )	<u>45,844</u>	<u>48,619</u>
	<b><u>58,044</u></b>	<b><u>65,163</u></b>

*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 2020 RMB'000	At 31 December 2019 RMB'000
<b>Current</b>		
Interest bearing		
Secured		
– short-term bank loans ( <i>Note (i)</i> )	191,000	308,400
– short-term other loan ( <i>Note (i)</i> )	–	49,658
– current portion of long-term bank loan ( <i>Note (i)</i> )	–	24,000
Unsecured		
– short-term bank loans	<u>90,000</u>	<u>60,000</u>
	<b><u>281,000</u></b>	<b><u>442,058</u></b>
<b>Non-current</b>		
Interest bearing		
Secured		
– long-term bank loan ( <i>Note (i)</i> )	<u>10,000</u>	–
	<b><u>291,000</u></b>	<b><u>442,058</u></b>

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

	At 31 December 2020 RMB'000	At 31 December 2019 RMB'000
Within one year	281,000	442,058
More than one year, but not exceeding two years	<u>10,000</u>	–
	<b><u>291,000</u></b>	<b><u>442,058</u></b>

*Notes:*

- (i) As at 31 December 2020, the Group's secured short-term bank loans and long-term bank loan were secured by certain of the Group's property, plant and equipment and leasehold land. 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. Short-term secured other loan as at 31 December 2019 were granted from a finance leasing company in the PRC and was fully repaid on 19 February 2020.
- (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 2020.

**18. SHARE CAPITAL**

	<b>Number of shares '000</b>	<b>Amount US\$</b>	<b>Amount RMB'000</b>
Authorised share capital:			
As at 1 January 2019, 31 December 2019, 1 January 2020 and 31 December 2020			
Ordinary share at US\$0.0001 each	<u>500,000,000</u>	<u>50,000,000</u>	<u>340,499</u>
Issued share capital:			
As at 1 January 2019	620,472	62,047	392
Issue of shares ( <i>Note</i> )	<u>472</u>	<u>47</u>	<u>–</u>
As at 31 December 2019, 1 January 2020 and 31 December 2020	<u>620,944</u>	<u>62,094</u>	<u>392</u>

*Note:* On 15 July 2019, second tranche of 472,000 remuneration shares granted to a senior management were issued in accordance to 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	
	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Short-term employee benefits	1,280	1,422
Retirement benefit scheme contributions	16	16
Share-based payment expenses	–	97
	<hr/>	<hr/>
Total compensation paid to key management personnel	<b>1,296</b>	<b>1,535</b>

## 20. CAPITAL COMMITMENTS

	At 31 December 2020 <i>RMB'000</i>	At 31 December 2019 <i>RMB'000</i>
	Commitments for the acquisition of property, plant and equipment and leasehold land: – contracted for but not provided	<b>30,053</b>

## 21. CONTINGENT LIABILITIES

As at 31 December 2020, neither the Group nor the Company had any significant contingent liabilities (2019: nil).

## 22. EVENTS AFTER THE REPORTING PERIOD

No other significant events that require additional disclosure or adjustments occurred after the end of the reporting period.

## MANAGEMENT DISCUSSION AND ANALYSIS

### BUSINESS REVIEW

In 2020, affected by the outbreak of the Coronavirus Disease 2019 (“COVID-19”), the urea industry and global economy experienced turbulence. Although the impact of the global spread of COVID-19 has not been dispersed, the domestic situation in the PRC tends to be stable. During the second half of 2020, as the domestic situation of COVID-19 was under control and the industrial economy had recovered, the overall urea market became more balanced, and the urea industry had gradually recovered in a rational and orderly manner, and therefore the market demand had gradually recovered during the Reporting Period. Although the average market prices of the Group’s major products such as urea and methanol products still fluctuated and declined as compared to 2019, the operating results of the Group for the second half of 2020 has outperformed the first half of the year.

During the Reporting Period, we recorded a decrease in profit by approximately RMB35.1 million, or 21.7%, from RMB161.6 million for the year ended 31 December 2019 to approximately RMB126.5 million for the Reporting Period, mainly due to the decrease of gross profit and gross profit margin of the Group as a whole which was mainly due to the decrease in our revenue and the higher percentage decrease of revenue than the percentage decrease of cost of sales during the Reporting Period.

Our revenue decreased by approximately RMB165.6 million, or 7.8%, from approximately RMB2,121.6 million for the year ended 31 December 2019 to approximately RMB1,956.0 million for the Reporting Period, mainly due to the decrease in the average selling price of urea and methanol products. The average selling price of our urea products was approximately RMB1,495 per tonne during the Reporting Period, representing a decrease of approximately 9.3% from RMB1,648 per tonne in 2019. The average selling price of our methanol products was approximately RMB1,236 per tonne during the Reporting Period, representing a decrease of approximately 20.8% from RMB1,561 per tonne in 2019.

However, benefit from the Group’s product differentiation strategy by effectively increasing production capacity and expanding the value chain to urea related products, the Group’s other urea by-products such as carbon dioxide, compound fertilizer and the newly developed vehicles urea solution products contributed an increase in revenue for the Reporting Period. Our revenue generated from the sales of other products increased by approximately RMB64.3 million, or 48.0% from approximately RMB134.0 million for the year ended 31 December 2019 to approximately RMB198.3 million for the Reporting Period.



## OPERATING AND FINANCIAL REVIEW

### Revenue by Products

	Year ended 31 December 2020 RMB'000	Year ended 31 December 2019 RMB'000	% Change + / (-)
Urea	1,659,912	1,855,794	(10.6)%
Methanol	97,851	131,785	(25.7)%
Other products	<u>198,281</u>	<u>134,013</u>	48.0%
<b>Total</b>	<b><u>1,956,044</u></b>	<b><u>2,121,592</u></b>	<b>(7.8)%</b>

#### *Urea*

Revenue from urea decreased by approximately RMB195.9 million, or 10.6%, from approximately RMB1,855.8 million for the year ended 31 December 2019 to approximately RMB1,659.9 million during the Reporting Period, as the average selling price of our urea decreased by approximately RMB153 per tonne, or 9.3%, from approximately RMB1,648 per tonne for the year ended 31 December 2019 to approximately RMB1,495 per tonne for the Reporting Period.

#### *Methanol*

Revenue from methanol decreased by approximately RMB33.9 million, or 25.7%, from approximately RMB131.8 million for the year ended 31 December 2019 to approximately RMB97.9 million during the Reporting Period, as the average selling price of our methanol decreased by approximately RMB325 per tonne, or 20.8%, from approximately RMB1,561 per tonne for the year ended 31 December 2019 to approximately RMB1,236 per tonne for the Reporting Period.

### *Other products*

Other products include carbon dioxide, liquid ammonia, compound fertiliser, vehicle urea solution and LNG. Revenue from other products increased by approximately RMB64.3 million, or 48.0%, from approximately RMB134.0 million for the year ended 31 December 2019 to approximately RMB198.3 million for the Reporting Period mainly due to the increase in revenue of our carbon dioxide, compound fertilizer and vehicle urea solution products during the Reporting Period. The increase in revenue of carbon dioxide was mainly due to the increase of the sales volume and average selling price of our carbon dioxide products for the Reporting Period; the increase in revenue of compound fertilizer was mainly due to the increase of sales volume for the Reporting Period; and the increase in revenue of vehicle urea solution was mainly due to its full-scale production in the Reporting Period.

### **Cost of sales**

Our cost of sales decreased by approximately RMB84.8 million, or 4.7%, from approximately RMB1,806.2 million for the year ended 31 December 2019 to approximately RMB1,721.4 million for the Reporting Period, primarily due to the decrease in raw materials costs, partially offset by the increase in labour costs and electricity cost during the Reporting Period.

### **Gross Profit and Gross Profit Margin**

	Year ended		Year ended		Change	
	31 December 2020		31 December 2019			
	Gross Profit	Margin	Gross Profit	Margin		
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Urea	<b>195,047</b>	<b>11.8</b>	273,225	14.7	(78,178)	(28.6)
Methanol	<b>(34,579)</b>	<b>(35.3)</b>	(15,458)	(11.7)	(19,121)	123.7
Other products	<b>74,181</b>	<b>37.4</b>	57,646	43.0	16,535	28.7
<b>Total</b>	<b><u>234,649</u></b>	<b>12.0</b>	<b><u>315,413</u></b>	<b>14.9</b>	<b><u>(80,764)</u></b>	<b>(25.6)</b>

Our gross profit decreased by approximately RMB80.8 million, or 25.6%, from approximately RMB315.4 million for the year ended 31 December 2019 to approximately RMB234.6 million for the Reporting Period, primarily due to the decrease in our revenue resulting from the decrease in the average selling price of our urea and methanol products while our cost of sales decreased mainly due to the decrease in raw materials costs during the Reporting Period. As a result of the decrease in our revenue and the higher percentage decrease of revenue than the percentage decrease of cost of sales during the Reporting Period, our gross profit margin decreased from approximately 14.9% for the year ended 31 December 2019 to approximately 12.0% for the Reporting Period.

#### *Other income*

Other income increased by approximately RMB1.8 million, or 16.5%, from approximately RMB10.9 million for the year ended 31 December 2019 to approximately RMB12.7 million for the Reporting Period, primarily due to the increase in gain on financial assets at fair value through profit or loss representing investment gain from trading of urea future contracts and increase in rental income.

#### *Other gains/(losses), net*

Other gains (net) of approximately RMB1.8 million (2019: other loss of approximately RMB8.5 million) was recorded for the Reporting Period mainly due to RMB appreciated against HKD.

#### *Administrative expenses*

Administrative expenses decreased by approximately RMB4.2 million, or 6.8%, from approximately RMB61.4 million for the year ended 31 December 2019 to approximately RMB57.2 million for the Reporting Period, primarily due to the decrease in consultancy fee, and such decrease was partially offset by the increase in staff salaries and welfares, donations to support the local government and legal and professional fees for the Reporting Period.

### *Distribution expenses*

There was no material fluctuation for distribution expenses which accounted for approximately RMB3.2 million for the Reporting Period and approximately RMB2.8 million for the year ended 31 December 2019.

### *Finance costs*

Finance costs decreased by approximately RMB16.1 million, or 48.2%, from approximately RMB33.4 million for the year ended 31 December 2019 to approximately RMB17.3 million for the Reporting Period, primarily due to general decrease in the level of borrowings.

### *Taxation*

Income tax expenses decreased by approximately RMB13.6 million, or 23.2%, from approximately RMB58.6 million for the year ended 31 December 2019 to approximately RMB45.0 million for the Reporting Period, primarily due to decrease profit before taxation for the Report Period.

### *Profit for the year*

Profit for the year decreased by approximately RMB35.1 million or 21.7% from approximately RMB161.6 million for the year ended 31 December 2019 to approximately RMB126.5 million for the Reporting Period. This was mainly due to the decrease in gross profit of approximately RMB80.8 million and increase in distribution expenses of approximately RMB0.4 million during the Reporting Period. The decrease in profit for the Reporting Period was partially offset by the increase in other income of approximately RMB1.8 million, increase in other gains (net) of approximately RMB10.3 million, decrease in administrative expenses of approximately RMB4.2 million, decrease in finance cost of approximately RMB16.1 million and decrease in income tax expense of RMB13.6 million.

## **CAPITAL STRUCTURE**

As at 31 December 2020, the Group had net assets of approximately RMB1,234.1 million (as at 31 December 2019: approximately RMB1,145.4 million), comprising of non-current assets of approximately RMB1,251.0 million (as at 31 December 2019: approximately RMB1,234.4 million), and current assets of approximately RMB508.1 million (as at 31 December 2019: approximately RMB590.2 million), which primarily consist of cash and bank balances amounted to approximately RMB367.1 million (as at 31 December 2019: approximately RMB431.8 million). Moreover, inventories amounted to approximately RMB82.4 million (as at 31 December 2019: approximately RMB80.9 million) and prepayments, deposit and other receivables amounted to approximately RMB50.1 million (as at 31 December 2019: approximately RMB72.3 million) are also major current assets. The Group recorded a net current assets position of approximately RMB28.5 million as at 31 December 2020 (as at 31 December 2019: net current liabilities of approximately RMB50.0 million). Major current liabilities include trade payables amounted to approximately RMB62.9 million (as at 31 December 2019: approximately RMB77.4 million), other payables and accruals amounted to approximately RMB58.0 million (as at 31 December 2019: approximately RMB65.2 million), contract liabilities amounted to approximately RMB64.8 million (as at 31 December 2019: approximately RMB44.7 million) and current portion of interest-bearing bank and other borrowings amounted to approximately RMB281.0 million (as at 31 December 2019: approximately RMB442.1 million).

## **LIQUIDITY AND FINANCIAL RESOURCES**

As at 31 December 2020, the Group had cash and bank balances of approximately RMB367.1 million (as at 31 December 2019: approximately RMB431.8 million) and had total interest-bearing bank borrowings of approximately RMB291.0 million (as at 31 December 2019: approximately RMB442.1 million). The Group's interest-bearing bank borrowings bear interests ranging from 3.70% to 5.20% (as at 31 December 2019: 4.39% to 5.53%) per annum.

As at 31 December 2020, total current and non-current bank and other borrowings of the Group repayable within one year and after one year were approximately RMB281.0 million and RMB10.0 million respectively (as at 31 December 2019: approximately RMB442.1 million and nil respectively).

As at 31 December 2020, the gearing ratio for the Group was 23.6% (as at 31 December 2019: 38.7%), based on bank and other borrowings of approximately RMB291.0 million (as at 31 December 2019: approximately RMB442.1 million) and equity attributable to owners of the Company of approximately RMB1,230.9 million (as at 31 December 2019: approximately RMB1,143.4 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 forward in 2021, as the domestic situation of COVID-19 will be brought under control, coupled with the strengthening of effort in demand-side reform and acceleration in the construction of the new “dual circulation” development landscape, a strong economic recovery is expected, and the entire urea industry will continue to develop in a healthy and orderly manner. As always, the Group will stick to the path of safe development, green development, quality development and sustainable development, fully leveraging on the favourable development platform provided by the capital market, and actively pursue new development opportunities. Provided that we achieve safety and environmental protection, the Group’s continued effort to strengthen our competitive edge and risk appetite will realise a steady growth and rapid development through investments, acquisitions and mergers and other initiatives, in addition to continued transformation of technology, development of new products and adjustment of product structure.

Lastly, the Group would like to take this opportunity to extend its sincere gratitude and best regards to each of the shareholder, the management and the employees and clients of the Group, and those who show care and support to the 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, creating better returns for its shareholders and realising greater achievements of the Group.

## **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 2020, capital commitment of the Group which had been contracted for but not provided in the financial statements was approximately RMB30.1 million (as at 31 December 2019: approximately RMB23.0 million).

## **CHARGE ON ASSETS**

As at 31 December 2020, the Group's secured short-term bank loans and long-term bank loan were secured by certain of the Group's property, plant and equipment and leasehold land. 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. Short-term secured other loans were granted from a finance leasing company in the PRC and was fully repaid on 19 February 2020.

## **CONTINGENT LIABILITIES**

As at 31 December 2020, the Group did not have any material contingent liabilities (as at 31 December 2019: Nil).

## **EMPLOYEES AND EMOLUMENT POLICY**

As at 31 December 2020, the Group employed a total of 1,315 employees (as at 31 December 2019: 1,295 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 RMB101.5 million (year ended 31 December 2019: RMB102.0 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.

## **EVENTS AFTER THE REPORTING PERIOD**

Saved as disclosed in this announcement, there is no event that will have material impact on the Group from the end of the Reporting Period to the date of this announcement.

## **MATERIAL ACQUISITIONS AND DISPOSAL OF SUBSIDIARIES AND ASSOCIATED COMPANIES**

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

## **SIGNIFICANT INVESTMENTS**

There was no significant investment held by 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.

## **PROPOSED FINAL DIVIDEND**

The Board recommended the payment of a final dividend of HK5 cents (2019: HK6 cents) per ordinary share, absorbing a total amount of about HK\$31.0 million (2019: HK\$37.3 million), in respect of the year ended 31 December 2020 (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, 28 May 2021 (the "**2021 AGM**"). The proposed final dividend is expected to be paid on Friday, 18 June 2021 to all shareholders whose names to be appeared on the register of members of the Company on Monday, 7 June 2021.

## **CLOSURE OF REGISTER OF MEMBERS**

The register of members of the Company will be closed from Monday, 24 May 2021 to Friday, 28 May 2021 (both days inclusive) for the purpose of determining the right to attend and vote at the 2021 AGM. In order to be qualified for attending and voting at the 2021 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, 21 May 2021.



Conditional on the passing of the resolution approving the declaration of the Proposed Final Dividend at the 2021 AGM, the register of members of the Company will also be closed from Friday, 4 June 2021 to Monday, 7 June 2021 (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 2021 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, 3 June 2021.

## **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 2020 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](http://www.hkex.com.hk) and on the Company's website at [www.dg-chemical.com](http://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, 26 March 2021

*As at the date of this announcement, the executive directors of the Company are Mr. Wang Zhihe, 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.*