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 2021

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 2021 (the "**Reporting Period**"). The relevant financial figures for the corresponding period or dates in 2020 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 2021

	Note	Year ended 31 December 2021 RMB'000	2020 RMB'000
Revenue	*4*	**2,880,934**	1,956,044
Cost of sales		**(2,422,121)**	(1,721,395)
Gross profit		**458,813**	234,649
Other income	*4*	**7,107**	12,681
Other gains, net	*5*	**3,465**	1,816
Administrative expenses		**(63,965)**	(57,180)
Distribution expenses		**(3,328)**	(3,202)
Finance costs	*7*	**(17,438)**	(17,275)
Profit before income tax	*8*	**384,654**	171,489
Income tax expenses	*9*	**(109,072)**	(45,004)
Profit for the year		**275,582**	126,485
Other comprehensive income that may be reclassified to profit or loss in subsequent periods			
Exchange differences on translation of foreign operation		**(5,188)**	(4,184)
Total comprehensive income for the year attributable to owners of the Company		**270,394**	122,301
Profit attributable to:			
– Owners of the Company		**266,081**	125,276
– Non-controlling interest		**9,501**	1,209
		275,582	126,485
Total comprehensive income attributable to:			
– Owners of the Company		**260,893**	121,092
– Non-controlling interest		**9,501**	1,209
		270,394	122,301
		RMB cents	*RMB cents*
Earnings per share for profit attributable to the owners of the Company			
– Basic and diluted	*11*	**42.9**	20.2

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2021

		As at 31 December	
		2021	2020
	Note	***RMB'000***	*RMB'000*
Non-current assets			
Property, plant and equipment	*12*	**1,014,656**	1,110,279
Investment property		**13,979**	14,828
Right-of-use assets		**115,846**	117,430
Unlisted equity investment at fair value through other comprehensive income		**40**	40
Prepayments for equipment and land lease	*15*	**3,657**	8,405
Total non-current assets		**1,148,178**	1,250,982
Current assets			
Inventories	*13*	**139,247**	82,417
Trade receivables	*14*	**17,741**	8,491
Notes receivables		**100**	–
Prepayments, deposits and other receivables	*15*	**110,202**	50,058
Cash and bank balances		**425,061**	367,104
Total current assets		**692,351**	508,070

	Note	As at 31 December 2021 RMB'000	2020 RMB'000
Current liabilities			
Trade payables	*16*	**54,380**	62,923
Deferred revenue		**826**	2,444
Contract liabilities	*4*	**70,810**	64,814
Other payables and accruals	*17*	**87,846**	58,044
Lease liabilities		**77**	245
Bank loans	*18*	**96,000**	281,000
Income tax payable		**12,617**	10,088
Amount due to a non-controlling shareholder of a subsidiary		**40**	40
Total current liabilities		**322,596**	479,598
Net current assets		**369,755**	28,472
Non-current liabilities			
Bank loans	*18*	**–**	10,000
Lease liabilities		**28,211**	28,154
Deferred revenue		**3,995**	4,820
Deferred tax liabilities		**6,716**	2,404
Total non-current liabilities		**38,922**	45,378
Net assets		**1,479,011**	1,234,076
Capital and reserves attributable to owners of the Company			
Share capital	*19*	**392**	392
Reserves		**1,465,565**	1,230,515
Equity attributable to owners of the Company		**1,465,957**	1,230,907
Non-controlling interests		**13,054**	3,169
Total equity		**1,479,011**	1,234,076

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 Act, Cap 22 (Act 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 2021 and significantly impacted entities and economic activities in varying scales 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 2021.

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 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16, Interest Rate Benchmark Reform – Phase 2
- Amendments to IFRS 16, COVID-19-Related Rent Concessions beyond 30 June 2021

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 2021, 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[3]
- Amendments to IAS 1 and IFRS Practice Statement 2, Disclosure of Accounting Policies[3]
- Amendments to IAS 8, Definition of Accounting Estimates[3]
- Amendments to IAS 12, Deferred Tax related to Assets and Liabilities arising from a Single Transaction[3]
- Amendments to IAS 16, Proceeds before Intended Use[1]
- Amendments to IAS 37, Onerous Contracts - Cost of Fulfilling a Contract[1]
- Amendments to IFRS 3, Reference to the Conceptual Framework[2]
- Amendments to IFRS 10 and IAS 28, Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]
- Annual Improvements to IFRSs 2018-2020[1]

[1] Effective for annual periods beginning on or after 1 January 2022.
[2] 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.
[3] Effective for annual periods beginning on or after 1 January 2023.
[4] 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 recognised.

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	
	2021	2020
	RMB'000	*RMB'000*
Revenue		
Primary geographical market		
– PRC	**2,880,934**	1,956,044
Major products		
– Sales of urea	**2,281,685**	1,659,912
– Sales of methanol	**159,577**	97,851
– Sales of liquid ammonia	**82,922**	65,425
– Sales of carbon dioxide	**42,829**	63,029
– Sales of LNG	**31,417**	16,412
– Sales of compound fertilisers	**20,209**	18,560
– Sales of vehicle urea solution	**262,295**	34,855
Total revenue from contracts with customers	**2,880,934**	1,956,044
Timing of revenue recognition		
– At a point in time	**2,880,934**	1,956,044
Other income is presented as follows:		
Sales of scrap materials	**227**	(405)
Government grants	**3,344**	4,480
Bank interest income	**5,373**	1,296
Rental income	**47**	567
(Loss)/gain on financial assets at fair value through profit or loss	**(3,141)**	6,759
Gain on disposal of a subsidiary	**398**	–
Refund for insurance compensation	**711**	–
Others	**148**	(16)
	7,107	12,681
Total revenue and other income	**2,888,041**	1,968,725

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

	31 December 2021	31 December 2020
	RMB'000	*RMB'000*
Contract liabilities from sales of goods	**70,810**	64,814

Contract liabilities mainly relate to the advance consideration received from customers. RMB64,814,000 (2020: RMB44,654,000) of the contract liabilities has been recognised as revenue from performance obligation satisfied during the year when the goods were sold.

5. OTHER GAINS, NET

	Year ended 31 December	
	2021	2020
	RMB'000	*RMB'000*
Foreign exchange gains	**3,465**	1,816

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	
	2021	2020
	RMB'000	*RMB'000*
Interest expense in relation to:		
Bank loans wholly repayable within five years	**16,045**	16,968
Lease liabilities	**1,973**	1,967
	18,018	18,935
Less: Amount capitalised *(Note)*	**(580)**	(1,660)
	17,438	17,275

Note: Borrowing costs of RMB580,000 (2020: RMB1,660,000) capitalised during the year arose on the general borrowing pool and are calculated by applying a capitalisation rate of 4% (2020: 4%) to expenditure on qualifying assets. None of borrowing costs was capitalised during both years arose on the specific borrowing granted for acquisition of property, plant and equipment.

8. PROFIT BEFORE INCOME TAX

Profit before income tax is arrived at after charging:

	Year ended 31 December	
	2021	2020
	RMB'000	*RMB'000*
Auditors' remuneration	**1,388**	1,343
Cost of inventories sold recognised as expense	**2,422,121**	1,721,395
Depreciation of property, plant and equipment	**158,718**	159,459
Depreciation of investment property	**849**	753
Amortisation of right-of-use assets	**2,991**	2,808
Short-term lease payments	**210**	243
Impairment of prepayments and other receivables	**17,520**	1,692
Employee benefit expenses (including directors' remuneration)		
– Wages and salaries	**56,682**	52,434
– Discretionary bonuses	**31,845**	19,944
– Retirement benefit scheme contributions	**16,594**	11,395
– Staff welfare and other benefits	**16,370**	17,746
	121,491	101,519

9. INCOME TAX EXPENSES

	Year ended 31 December	
	2021	2020
	RMB'000	*RMB'000*
Current tax – PRC		
Current tax	**101,934**	42,378
Withholding tax on dividends	**2,826**	3,800
Deferred tax		
Charged/(credited) for the year	**4,312**	(1,174)
	109,072	45,004

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% (2020: 25%) of the assessable profit of the PRC subsidiaries of the Group as determined in accordance with the PRC Corporate 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 28 May 2021, a final dividend of HK5 cents per ordinary share in respect of the year ended 31 December 2020, absorbing a total amount of HK$31,047,200, was paid on 18 June 2021 to all shareholders whose names appeared on the register of members of the Company on 7 June 2021.

The Board recommended a final dividend of HK10 cents (2020: HK5 cents) per ordinary share, absorbing a total amount of HK$62,094,400 (2020: HK$31,047,200) in respect of the year ended 31 December 2021, 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 2022. 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 attributable to owners of the Company is based on the following data:

	Year ended 31 December	
	2021	2020
	RMB'000	*RMB'000*
Earnings for the purposes of basic and diluted earnings per share	**266,081**	125,276
Weighted average number of ordinary shares for the purposes of basic and diluted earnings per share	**620,944,000**	620,944,000

No diluted earnings per share is presented as there was no potential ordinary shares in issue during the years ended 31 December 2021 and 2020.

12. PROPERTY, PLANT AND EQUIPMENT

No impairment losses were recognised in respect of property, plant and equipment for the years ended 31 December 2021 and 2020. During the year ended 31 December 2021, additions to property, plant and equipment approximately amounted to RMB71,139,000 (2020: RMB163,877,000), disposal of property, plant and equipment of a subsidiary approximately amounted to RMB8,044,000 and buildings with carrying amount of RMB Nil (2020: RMB9,399,000) was transferred to investment property. No disposals of property, plant and equipment were noted for the year ended 31 December 2021 and 2020.

13. INVENTORIES

	At 31 December 2021	At 31 December 2020
	RMB'000	*RMB'000*
Raw materials	**82,265**	70,624
Finished goods	**53,799**	8,185
Parts and spares	**3,183**	3,608
	139,247	82,417

14. TRADE RECEIVABLES

	At 31 December 2021 RMB'000	At 31 December 2020 RMB'000
Trade receivables	**17,741**	8,491

An aging analysis of the trade receivables as at the end of the reporting periods, based on the invoice date, is as follows:

	At 31 December 2021 RMB'000	At 31 December 2020 RMB'000
Within 3 months	**17,741**	8,491

As at 31 December 2021, none of the debtors included in the Group's trade receivables were past due.

15. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	At 31 December 2021 RMB'000	At 31 December 2020 RMB'000
Other tax recoverable	**58,834**	32,308
Prepayments for utilities	**3,151**	12,000
Prepayments for equipment	**3,657**	610
Prepayments for acquisition of land leases	**–**	7,795
Prepayments for coal suppliers	**61,079**	1,212
Prepayments to employees	**573**	965
Other prepayments, deposits and other receivables	**4,085**	5,265
	131,379	60,155
Less: impairment loss on other receivables	**(17,520)**	(1,692)
	113,859	58,463

Represented by:

	At 31 December 2021 *RMB'000*	At 31 December 2020 RMB'000
Current portion	**110,202**	50,058
Non-current portion	**3,657**	8,405
	113,859	58,463

16. TRADE PAYABLES

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

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

	At 31 December 2021 *RMB'000*	At 31 December 2020 *RMB'000*
0 to 90 days	**32,958**	25,682
91 to 180 days	**591**	3,043
181 to 365 days	**1,758**	652
Over 365 days	**19,073**	33,546
	54,380	62,923

17. OTHER PAYABLES AND ACCRUALS

	At 31 December 2021 *RMB'000*	At 31 December 2020 *RMB'000*
Accruals	**17,090**	12,200
Other payables *(Note)*	**70,756**	45,844
	87,846	58,044

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

18. BANK LOANS

	At 31 December 2021 *RMB'000*	At 31 December 2020 *RMB'000*
Current		
Interest bearing		
Secured		
– short-term bank loans *(Note (i))*	**76,000**	191,000
Unsecured		
– short-term bank loans	**20,000**	90,000
	96,000	281,000
Non-current		
Interest bearing		
Secured		
– long-term bank loan *(Note (i))*	**–**	10,000
	96,000	291,000

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

	At 31 December 2021 *RMB'000*	At 31 December 2020 *RMB'000*
Within one year	**96,000**	281,000
More than one year, but not exceeding two years	**–**	10,000
	96,000	291,000

Notes:

(i) As at 31 December 2021, the Group's secured short-term bank loans was secured by certain of the Group's property, plant and equipment and leasehold land. 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.

19. SHARE CAPITAL

	Number of shares *'000*	Amount *US$*	Amount *RMB'000*
Authorised share capital:			
As at 1 January 2020, 31 December 2020, 1 January 2021 and 31 December 2021			
Ordinary share at US$0.0001 each	500,000,000	50,000,000	340,499
Issued share capital:			
As at 1 January 2020, 31 December 2020, 1 January 2021 and 31 December 2021	620,944	62,094	392

20. RELATED PARTY TRANSACTIONS AND BALANCES

Compensation of key management personnel of the Group

	Year ended 31 December	
	2021	2020
	RMB'000	*RMB'000*
Short-term employee benefits	**1,227**	1,280
Retirement benefit scheme contributions	**15**	16
Total compensation paid to key management personnel	**1,242**	1,296

21. CAPITAL COMMITMENTS

	At 31 December 2021 ***RMB'000***	At 31 December 2020 *RMB'000*
Commitments for the acquisition of property, plant and equipment and leasehold land:		
– contracted for but not provided	**18,161**	30,053

22. DISPOSAL OF INTEREST IN A SUBSIDIARY

On 22 April 2021, an indirectly wholly owned subsidiary of the Company, Hebei Dongguang entered into an agreement ("**the Agreement**") with a third party investor (the "**Investor**") in relation to the capital contributions (the "**Capital Contributions**") to a subsidiary, Xinjiang Xinji Energy Chemical Co., Limited ("**Xinjiang Xinji**"). Total considerations of the Capital Contributions from Hebei Dongguang and the Investor were agreed at RMB90,000,000 and RMB96,080,000 in cash, in which RMB80,000,000 and RMB86,472,000 were injected. Details please refer to the Company's announcement dated 22 April 2021.

Prior to the Capital Contributions, Hebei Dongguang has contributed share capital of RMB10,000,000 to Xinjiang Xinji. After the Capital Contributions, the equity interest of the Group has been decreased from 100% to 51%, which was considered as a deemed disposal of a subsidiary and RMB94,000 has been reallocated from retained earnings to non-controlling interest. The effect of changes in the ownership interest of Xinjiang Xinji on the equity attributable to owners of the Company is summarised as follows:

	At 31 December 2021 *RMB'000*
Carrying amount of non-controlling interests disposed of	(94)
Consideration received from non-controlling interests	–
Gain on deemed disposal within equity	(94)

On 12 September 2021, the Group disposed of the remaining 51% equity interest of Xinjiang Xinji. The net assets of Xinjiang Xinji at the date of disposal were as follows:

	2021 *RMB'000*
Property, plant and equipment	8,044
Right-of-use assets	6,840
Prepayment for equipment and land lease	7,795
Prepayments, deposits and other receivables	514
Cash and bank balances	152,896
Trade payables	(28)
Income tax payable	(371)
Net assets disposed of	175,690
Non-controlling interests	(86,088)
Gain on disposal of a subsidiary	398
Total cash consideration	90,000

An analysis of net inflow of cash and cash equivalents in respect of disposal of its subsidiary is as follows:

	2021
	RMB'000
Net cash inflows arising from disposal of a subsidiary	
Total consideration	**90,000**
Capital injection from shareholders of a subsidiary	**86,472**
Cash and cash equivalents disposed of	**(152,896)**
	23,576

23. CONTINGENT LIABILITIES

As at 31 December 2021, neither the Group nor the Company had any significant contingent liabilities (2020: nil).

24. 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 2021, with the gradual recovery of the global economy from the COVID-19 outbreak (the "**Outbreak**"), the demand for urea and chemical products in related industries has increased. The global supply chain has also been restricted for various reasons and affected the production capacity of foreign urea and fertilizers, resulting in an increase in domestic fertilizers and chemical products demand. At the same time, domestic grain prices have risen, and farmers' enthusiasm for planting has also increased the demand for fertilizers. On the other hand, international market energy prices rose sharply, while domestic power coal supply and demand continued to be tight, resulting in a rise in the price of coal, the main raw material for the production of urea products, and the urea prices also hitting a record high.

During the Reporting Period, the Group recorded an increase in profit by approximately RMB149.1 million or 117.9%, from approximately RMB126.5 million for the year ended 31 December 2020 to approximately RMB275.6 million for the Reporting Period, mainly due to the increase of overall gross profit and gross profit margin of the Group. The Group's gross profit increased by approximately RMB224.2 million or 95.5%, from approximately RMB234.6 million for the year ended 31 December 2020 to approximately RMB458.8 million for the Reporting Period.

The Group's revenue increased by approximately RMB924.9 million or 47.3% from approximately RMB1,956.0 million for the year ended 31 December 2020 to approximately RMB2,880.9 million for the Reporting Period, mainly due to the increase in the average selling price of urea products. During the Reporting Period, the average selling price of the Group's urea products was approximately RMB2,022 per tonne, representing an increase of approximately 35.3% from approximately RMB1,495 per tonne for the year ended 31 December 2020. As a result of the increase in revenue and the higher percentage increase in revenue than the percentage increase in cost of sales during the Reporting Period, the Group's gross profit and gross profit margin also increased during the Reporting Period.

The Group has always adhered to the philosophy of innovative development, and has actively explored new markets and developed new products. In this regard, the sales of vehicle urea solution, a urea by-product newly developed by the Group in recent years, achieved a strong growth and continued to drive the increase in revenue during the Reporting Period. The Group's revenue generated from the sales of vehicle urea solution increased by approximately RMB227.4 million or 652.5% from approximately RMB34.9 million for the year ended 31 December 2020 to approximately RMB262.3 million for the Reporting Period.

OPERATING AND FINANCIAL REVIEW

Revenue by Products

	Year ended 31 December 2021 *RMB'000*	Year ended 31 December 2020 *RMB'000*	**% Change** +/(-)
Urea	**2,281,685**	1,659,912	37.5%
Vehicle urea solution	**262,295**	34,855	652.5%
Methanol	**159,577**	97,851	63.1%
Other products	**177,377**	163,426	8.5%
Total	**2,880,934**	1,956,044	47.3%

Urea

Revenue from urea increased by approximately RMB621.8 million, or 37.5%, from approximately RMB1,659.9 million for the year ended 31 December 2020 to approximately RMB2,281.7 million during the Reporting Period, as the average selling price of the Group's urea increased by approximately RMB527 per tonne, or 35.3%, from approximately RMB1,495 per tonne for the year ended 31 December 2020 to approximately RMB2,022 per tonne for the Reporting Period.

Vehicle urea solution

Revenue from vehicle urea solution increased by approximately RMB227.4 million, or 652.5%, from approximately RMB34.9 million for the year ended 31 December 2020 to approximately RMB262.3 million during the Reporting Period, mainly due to the increase of the sales volume and average selling price of the Group's vehicle urea solution products during the Reporting Period. The average selling price of the Group's vehicle urea solution products increased by approximately RMB333 per tonne, or 27.8%, from approximately RMB1,197 per tonne for the year ended 31 December 2020 to approximately RMB1,530 per tonne for the Reporting Period.

Methanol

Revenue from methanol increased by approximately RMB61.7 million, or 63.1%, from approximately RMB97.9 million for the year ended 31 December 2020 to approximately RMB159.6 million during the Reporting Period, as the average selling price of the Group's methanol increased by approximately RMB576 per tonne, or 46.6%, from approximately RMB1,236 per tonne for the year ended 31 December 2020 to approximately RMB1,812 per tonne for the Reporting Period.

Other products

Other products include carbon dioxide, liquid ammonia, compound fertiliser and LNG. Revenue from other products increased by approximately RMB14.0 million, or 8.5%, from approximately RMB163.4 million for the year ended 31 December 2020 to approximately RMB177.4 million for the Reporting Period mainly due to the increase in revenue of the Group's liquid ammonia and LNG products during the Reporting Period. The increase in revenue of liquid ammonia was mainly due to the increase of the average selling price of the Group's liquid ammonia products for the Reporting Period; and the increase in revenue of LNG was mainly due to the increase of sales volume and average selling price for the Reporting Period.

Cost of sales

The Group's cost of sales increased by approximately RMB700.7 million, or 40.7%, from approximately RMB1,721.4 million for the year ended 31 December 2020 to approximately RMB2,422.1 million for the Reporting Period, primarily due to the increase in raw materials costs, increase in labour costs and electricity cost during the Reporting Period.

Gross Profit and Gross Profit Margin

	Year ended 31 December 2021		Year ended 31 December 2020			
	Gross Profit	**Margin**	Gross Profit	Margin	**Change**	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Urea	**393,212**	**17.2**	195,047	11.8	198,165	101.6
Vehicle urea solution	**32,657**	**12.5**	5,061	14.5	27,596	545.3
Methanol	**(36,190)**	**(22.7)**	(34,579)	(35.3)	(1,611)	(4.7)
Other products	**69,134**	**39.0**	69,120	42.3	14	–
Total	**458,813**	**15.9**	234,649	12.0	**224,164**	95.5

The Group's gross profit increased by approximately RMB224.2 million, or 95.5%, from approximately RMB234.6 million for the year ended 31 December 2020 to approximately RMB458.8 million for the Reporting Period, primarily due to the increase in the Group's revenue resulting from the increase in the average selling price of the Group's urea and vehicle urea solution products due to the increased demand of domestic fertilisers and chemical products and increase of production costs such as raw materials costs. At the same time, the Group's cost of sales increased, mainly due to the increase in raw materials costs during the Reporting Period. As a result of the increase in the Group's revenue and the higher percentage increase in revenue than the percentage increase of cost of sales during the Reporting Period, the Group's gross profit margin increased from approximately 12.0% for the year ended 31 December 2020 to approximately 15.9% for the Reporting Period.

Other income

Other income decreased by approximately RMB5.6 million, or 44.0%, from approximately RMB12.7 million for the year ended 31 December 2020 to approximately RMB7.1 million for the Reporting Period, primarily due to the loss on financial assets at fair value through profit or loss representing investment loss from trading of urea future contracts and decrease in government grant income during the Reporting Period.

Other gains, net

Other gains (net) of approximately RMB3.5 million (2020: other gain of approximately RMB1.8 million) was recorded for the Reporting Period mainly due to the increase of foreign exchange gains for the Reporting Period.

Administrative expenses

Administrative expenses increased by approximately RMB6.8 million, or 11.9%, from approximately RMB57.2 million for the year ended 31 December 2020 to approximately RMB64.0 million for the Reporting Period, primarily due to the increase in staff salaries and welfare, and provision for other receivables for the Reporting Period. Such increase was partially offset by the decrease in donation to support the local government and in legal and professional fees for the Reporting Period.

Distribution expenses

Distribution expenses increased by approximately RMB0.1 million, or 4.0%, from approximately RMB3.2 million for the year ended 31 December 2020 to approximately RMB3.3 million for the Reporting Period, primarily due to the increase in staff salaries and welfare for the Reporting Period.

Finance costs

Finance costs increased by approximately RMB0.1 million, or 0.9%, from approximately RMB17.3 million for the year ended 31 December 2020 to approximately RMB17.4 million for the Reporting Period, with no material fluctuation.

Taxation

Income tax expenses increased by approximately RMB64.1 million, or 142.4%, from approximately RMB45.0 million for the year ended 31 December 2020 to approximately RMB109.1 million for the Reporting Period, primarily due to increase in profit before taxation for the Report Period.

Profit for the year

Profit for the year increased by approximately RMB149.1 million or 117.9% from approximately RMB126.5 million for the year ended 31 December 2020 to approximately RMB275.6 million for the Reporting Period. This was mainly due to the increase in gross profit and gross profit margin during the Reporting Period as mentioned above. The increase in profit for the Reporting Period was partially offset by the decrease in other income of approximately RMB5.6 million, increase in administrative expenses of approximately RMB6.8 million and increase in income tax expense of RMB64.1 million.

CAPITAL STRUCTURE

As at 31 December 2021, the Group had net assets of approximately RMB1,479.0 million (as at 31 December 2020: approximately RMB1,234.1 million), comprising of non-current assets of approximately RMB1,148.2 million (as at 31 December 2020: approximately RMB1,251.0 million), and current assets of approximately RMB692.4 million (as at 31 December 2020: approximately RMB508.1 million), which primarily consist of cash and bank balances amounted to approximately RMB425.1 million (as at 31 December 2020: approximately RMB367.1 million). Moreover, inventories amounted to approximately RMB139.2 million (as at 31 December 2020: approximately RMB82.4 million) and prepayments, deposit and other receivables amounted to approximately RMB110.2 million (as at 31 December 2020: approximately RMB50.1 million) are also major current assets. The Group recorded a net current assets position of approximately RMB369.8 million as at 31 December 2021 (as at 31 December 2020: net current assets of approximately RMB28.5 million). Major current liabilities include trade payables amounted to approximately RMB54.4 million (as at 31 December 2020: approximately RMB62.9 million), other payables and accruals amounted to approximately RMB87.8 million (as at 31 December 2020: approximately RMB58.0 million), contract liabilities amounted to approximately RMB70.8 million (as at 31 December 2020: approximately RMB64.8 million) and current portion of interest-bearing bank borrowings amounted to approximately RMB96.0 million (as at 31 December 2020: approximately RMB281.0 million).

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2021, the Group had cash and bank balances of approximately RMB425.1 million (as at 31 December 2020: approximately RMB367.1 million) and had total interest-bearing bank borrowings of approximately RMB96.0 million (as at 31 December 2020: approximately RMB291.0 million). The Group's interest-bearing bank borrowings bear interests ranging from 3.70% to 4.70% (as at 31 December 2020: 3.70% to 5.20%) per annum.

As at 31 December 2021, total current bank borrowings of the Group repayable within one year was approximately RMB96.0 million (as at 31 December 2020: within one year and after one year were approximately RMB281.0 million and RMB10.0 million respectively).

As at 31 December 2021, the gearing ratio for the Group was 6.5% (as at 31 December 2020: 23.6%), based on bank borrowings of approximately RMB96.0 million (as at 31 December 2020: approximately RMB291.0 million) and equity attributable to owners of the Company of approximately RMB1,466.0 million (as at 31 December 2020: approximately RMB1,230.9 million). The Group would serve its debts primarily with cash flow generated from its operation, seeking renewal of the outstanding bank borrowings and new banking facilities and exploring the availability of alternative source of financing. The management is confident that the Group has adequate financial resources to meet its future debt repayment obligations whilst supporting its working capital requirements and future expansion.

PROSPECTS

In the 2021 Central Economic Working Conference, it was put forward that the economic work for 2022 would be to prioritize stability and to proceed with stability. Access to food is of paramount concern to the general public, therefore safety in agricultural products is the cornerstone for "stability". Local governments have been issuing documents in relation to ensuring grains safety, sufficiency of supply and stable price, once again making urea of utmost importance and thus further fostering the increase in demand for urea. In addition, owing to the industrialization demand under the 14th Five-Year Plan, the industrial demand for urea is expected to grow given the gradual commencement of new domestic infrastructure projects and the recovery of overseas economies from the impact of the Outbreak.

Looking forward to 2022, with the gradual weakening of the impact from the Outbreak, the establishment of the national “double carbon” target, the increase in demand for food supply, green factories are becoming the key direction of future development of the industry. The urea industry as a whole is expected to maintain a stable, healthy and orderly development. The Group will continue to grasp the pulse of the industry and seek development opportunities. While protecting the environment, we will increase economic benefits, continuously enhance the core competitiveness and risk resilience of the Group, and achieve long term future development.

Lastly, the Group would like to take this opportunity to extend its sincere gratitude and best regards to each of the shareholders of the Company, 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 bank balances in currency 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 2021, capital commitment of the Group which had been contracted for but not provided in the financial statements was approximately RMB18.2 million (as at 31 December 2020: approximately RMB30.1 million).

CHARGE ON ASSETS

As at 31 December 2021, the Group's secured short-term bank loans were secured by certain of the Group's property, plant and equipment and leasehold land. 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.

CONTINGENT LIABILITIES

As at 31 December 2021, the Group did not have any material contingent liabilities (as at 31 December 2020: Nil).

EMPLOYEES AND EMOLUMENT POLICY

As at 31 December 2021, the Group employed a total of 1,285 employees (as at 31 December 2020: 1,315 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 RMB121.5 million (year ended 31 December 2020: RMB101.5 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

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

Reference is made to the announcement of the Company dated 12 September 2021 in relation to the disposal of the 51% equity interests in Xinjiang Xinji Energy Chemical Co., Ltd.* (新疆新冀能源化工有限公司) ("**Xinjiang Xinji**"). On 12 September 2021, Hebei Dongguang Chemical Co., Ltd.* (河北省東光化工有限責任公司) ("**Hebei Dongguang**") as vendor entered into the conditional equity transfer agreement with Hangzhou Jinjiang Group Co., Ltd.* (杭州錦江集團有限公司) ("**Hangzhou Jinjiang**") as purchaser, Xinjiang Lvyuan State-owned Capital Investment Operation Co., Ltd.* (新疆綠原國有資本投資運營有限公司) (formerly known as "Xinjiang Lvyuan State-owned Assets Management Group Co., Ltd.* 新疆綠原國有資產經營集團有限公司") ("**Xinjiang Lvyuan**") as shareholder of Xinjiang Xinji and Xinjiang Xinji, pursuant to which Hangzhou Jinjiang has agreed to acquire 51% of the entire equity interests in Xinjiang Xinji from Hebei Dongguang (the "**Disposal**"). The consideration for the Disposal was RMB90 million. Completion of the Disposal took place on 27 September 2021.

Save as disclosed, there was no other 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.

* *For identification purpose only*

PROPOSED FINAL DIVIDEND

The Board recommended the payment of a final dividend of HK10 cents (2020: HK5 cents) per ordinary share, absorbing a total amount of about HK$62.1 million (2020: HK$31.0 million), in respect of the year ended 31 December 2021 (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, 27 May 2022 (the "**2022 AGM**"). The Proposed Final Dividend is expected to be paid on Friday, 10 June 2022 to all shareholders whose names to be appeared on the register of members of the Company on Monday, 6 June 2022.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, 24 May 2022 to Friday, 27 May 2022 (both days inclusive) for the purpose of determining the right to attend and vote at the 2022 AGM. In order to be qualified for attending and voting at the 2022 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 Monday, 23 May 2022.

Conditional on the passing of the resolution approving the declaration of the Proposed Final Dividend at the 2022 AGM, the register of members of the Company will also be closed from Thursday, 2 June 2022 to Monday, 6 June 2022 (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 2022 AGM), unregistered holders of shares of the Company should ensure that all share transfer documents accompanied by the corresponding share certificates are lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at the address stated above for registration not later than 4:30 p.m. on Wednesday, 1 June 2022.

AUDIT COMMITTEE

The audit committee of the Company (the "**Audit Committee**") 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 2021 as set out in this announcement have been agreed by the Company's auditor, BDO Limited, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by BDO Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by BDO Limited on this announcement.

CORPORATE GOVERNANCE

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

PUBLICATION OF FINAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

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

APPRECIATION

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

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

The PRC, 25 March 2022

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.