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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 2023**

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 2023 (the “**Reporting Period**”). The relevant financial figures for the corresponding period or dates in 2022 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 2023

		Year ended 31 December	
		2023	2022
	<i>Note</i>	RMB'000	RMB'000
Revenue	4	2,920,711	3,130,781
Cost of sales		<u>(2,587,750)</u>	<u>(2,801,167)</u>
Gross profit		332,961	329,614
Other income	4	17,785	9,882
Other losses, net	5	(2,077)	(4,467)
Administrative expenses		(73,994)	(53,204)
Distribution expenses		(4,077)	(3,634)
Finance costs	7	<u>(1,955)</u>	<u>(1,965)</u>
Profit before income tax	8	268,643	276,226
Income tax expenses	9	<u>(74,536)</u>	<u>(74,087)</u>
Profit for the year		194,107	202,139
Other comprehensive income that may be reclassified to profit or loss in subsequent periods			
Exchange differences on translation of foreign operation		<u>3,515</u>	<u>53</u>
Total comprehensive income for the year attributable to owners of the Company		<u>197,622</u>	<u>202,192</u>
Profit attributable to:			
– Owners of the Company		190,080	194,380
– Non-controlling interest		<u>4,027</u>	<u>7,759</u>
		<u>194,107</u>	<u>202,139</u>
Total comprehensive income attributable to:			
– Owners of the Company		193,595	194,433
– Non-controlling interest		<u>4,027</u>	<u>7,759</u>
		<u>197,622</u>	<u>202,192</u>
		<i>RMB cents</i>	<i>RMB cents</i>
Earnings per share for profit attributable to the owners of the Company			
– Basic and diluted	11	<u>30.6</u>	<u>31.3</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2023

		As at 31 December	
		2023	2022
	Note	RMB'000	RMB'000
Non-current assets			
Property, plant and equipment	12	867,340	929,729
Investment property		7,155	13,130
Right-of-use assets		110,358	113,240
Unlisted equity investment at fair value through other comprehensive income		40	40
Prepayments for equipment & land lease	15	450	772
Deferred tax assets		81	60
		<hr/>	<hr/>
Total non-current assets		985,424	1,056,971
Current assets			
Inventories	13	114,774	129,313
Trade receivables	14	4,130	9,784
Prepayments, deposits and other receivables	15	193,946	137,581
Financial assets at fair value through profit or loss		31	–
Cash and bank balances		797,780	535,466
		<hr/>	<hr/>
		1,110,661	812,144
Assets classified as held for sale		5,126	–
		<hr/>	<hr/>
Total current assets		1,115,787	812,144

		As at 31 December	
		2023	2022
	<i>Note</i>	RMB'000	<i>RMB'000</i>
Current liabilities			
Trade payables	<i>16</i>	68,674	50,062
Deferred revenue		826	826
Contract liabilities	<i>4</i>	104,969	80,380
Other payables and accruals	<i>17</i>	93,344	74,545
Lease liabilities		90	242
Income tax payable		26,203	6,001
Amount due to a non-controlling shareholder of a subsidiary		40	40
Total current liabilities		294,146	212,096
Net current assets		821,641	600,048
Non-current liabilities			
Lease liabilities		27,951	28,120
Deferred revenue		2,344	3,169
Deferred tax liabilities		9,602	5,302
Total non-current liabilities		39,897	36,591
Net assets		1,767,168	1,620,428
Capital and reserves attributable to owners of the Company			
Share capital	<i>18</i>	392	392
Reserves		1,758,106	1,608,533
Equity attributable to owners of the Company		1,758,498	1,608,925
Non-controlling interests		8,670	11,503
Total equity		1,767,168	1,620,428

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Dongguang Chemical Limited (the “**Company**”) was incorporated in the Cayman Islands on 26 July 2013 as an exempted company with limited liability under the Companies Act, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. 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 principal activity of the Company is investment holding. The Company and its subsidiaries (collectively referred to as 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 as explained in the accounting policies set out below.

3. **ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRS ACCOUNTING STANDARDS”)**

(a) Adoption of new or amended IFRS Accounting Standards

The International Accounting Standard Board (“IASB”) has issued a number of new or amended IFRSs, which comprise all standards and interpretations approved by the IASB, and International Accounting Standards (“IASs”) and Standing Interpretations Committee interpretations approved by the International Accounting Standards Committee that remain in effect, that are first effective for the current accounting period of the Group:

- Amendments to IFRS 17, Insurance Contracts and the related Amendments
- Amendments to IAS 1 and IFRS Practice Statement 2, Disclosure of Accounting Policies
- Amendments to IAS 8, Definition of Accounting Estimates
- Amendments to IAS 12, Deferred Tax related to Assets and Liabilities arising from a Single Transaction
- Amendments to IAS 12, International Tax Reform – Pillar Two Model Rules

The impact of the adoption of Amendments to IAS 1 and IFRS Practice Statement 2, Disclosure of Accounting Policies has been summarised in below. The other new or amended IFRS Accounting Standards that are effective from 1 January 2023 did not have any significant impact on the Group’s accounting policies.

Disclosure of Accounting Policies (Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2 Making Materiality Judgements)

The IASB issued IFRS Practice Statement 2 Making Materiality Judgements in March 2021 to provide entities with non-mandatory guidance on how to make materiality judgements when preparing their general purpose financial statements in accordance with IFRS. In April 2021, the IASB issued amendments to IAS 1 and IFRS Practice Statement 2. The amendments aim to make accounting policy disclosures more informative by replacing the requirement to disclose ‘significant accounting policies’ with ‘material accounting policy information’. The amendments also provide guidance under what circumstance, the accounting policy information is likely to be considered material and therefore requiring disclosure.

These amendments have no effect on the measurement or presentation of any items in the consolidated financial statements of the Group but affect the disclosure of accounting policies of the Group.

(b) Changes in accounting policies

New guidance on accounting for the MPF-LSP offsetting mechanism in Hong Kong issued by HKICPA

In June 2022, Employment and Retirement Schemes Legislation (Offsetting Arrangement) (Amendment) Ordinance 2022 ('the Amendment Ordinance') was enacted. The Amendment Ordinance abolishes the use of the accrued benefits derived from employers' mandatory contributions under the mandatory provident fund ('MPF') scheme to offset severance payment ('SP') and long service payments ('LSP') ('the Abolition'). Subsequently, the Government of HKSAR announced that the Abolition will take effect on 1 May 2025 ('the Transition Date').

The following key changes will take effect since the Transition Date:

- Accrued benefits derived from employers' mandatory MPF contributions cannot be used to offset the LSP/SP in respect of the employment period after the Transition Date.
- The pre-transition LSP/SP is calculated using the last month's salary immediately preceding the Transition Date, instead of using the last month's salary of employment termination date.

Due to the complexities of the accounting for the offsetting of accrued benefits derived from an employer's mandatory MPF contributions and its LSP obligation and the accounting for the offsetting mechanism could become material in light of the Abolition, the HKICPA published 'Accounting implications of the abolition of the MPF-LSP offsetting mechanism in Hong Kong' ('the Guidance') in July 2023 to provide guidance to account for the offsetting mechanism and the Abolition. The HKICPA concluded that there are two acceptable accounting approaches for the offsetting mechanism, being:

- Approach 1: Account for the amount expected to be offset as a deemed employee contribution towards that employee's LSP benefits in terms of HKAS 19.93(a)
- Approach 2: Account for the employer MPF contributions and the offsetting mechanism as a funding mechanism for the LSP obligation

For the years ended 31 December 2022 and 2023, the Group's LSP liability before the expected offsetting under the MPF-LSP offsetting mechanism is immaterial. Application of the Guidance had no material effect on the consolidated financial statements of the Group.

(c) 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 IFRS 10 and IAS 28, Sale or Contribution of Assets between an Investor and its Associate or Joint Venture¹
- Amendment to IFRS 16, Lease Liability in a Sale and Leaseback²
- Amendments to IAS 1, Classification of Liabilities as Current or Non-current (the "2020 Amendments")²
- Amendments to IAS 1, Non-current Liabilities with Covenants (the "2020 Amendments")²
- Amendments to IAS 7 and IFRS 7, Supplier Finance Arrangements²
- Amendments to IAS 21, Lack of Exchangeability³

¹ No mandatory effective date yet determined but available for adoption.

² Effective for annual periods beginning on or after 1 January 2024.

³ Effective for annual periods beginning on or after 1 January 2025.

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.

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	
	2023	2022
	RMB'000	RMB'000
Revenue		
Primary geographical market		
– PRC	<u>2,920,711</u>	<u>3,130,781</u>
Major products		
– Sales of urea	2,510,964	2,627,522
– Sales of vehicle urea solution	164,124	198,707
– Sales of methanol	130,715	151,452
– Sales of liquid ammonia	368	62,273
– Sales of carbon dioxide	28,817	20,296
– Sales of LNG	32,728	39,498
– Sales of compound fertiliser	<u>52,995</u>	<u>31,033</u>
Total revenue from contracts with customers	<u>2,920,711</u>	<u>3,130,781</u>
Timing of revenue recognition		
– At a point in time	<u>2,920,711</u>	<u>3,130,781</u>
Other income is presented as follows:		
Government grants	3,476	3,120
Bank interest income	7,141	5,335
Gain on financial assets at fair value through profit or loss	2,076	461
Fair value gain of financial assets at fair value through profit or loss	31	–
Written off of trade payables	2,864	970
Others	<u>2,197</u>	<u>(4)</u>
	<u>17,785</u>	<u>9,882</u>

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

	31 December 2023 RMB'000	31 December 2022 RMB'000
Contract liabilities from sales of goods	<u>104,969</u>	<u>80,380</u>

Contract liabilities mainly relate to the advance consideration received from customers. RMB80,380,000 (2022: RMB70,810,000) of the contract liabilities has been recognised as revenue from performance obligations satisfied during the year when the goods were sold.

5. OTHER LOSSES, NET

	Year ended 31 December	
	2023 RMB'000	2022 RMB'000
Foreign exchange losses	(5,117)	(2,298)
Net gain/(loss) on sales of scrap materials	<u>3,040</u>	<u>(2,169)</u>
	<u>(2,077)</u>	<u>(4,467)</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	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Interest expense in relation to:		
Bank loans wholly repayable within five years	–	782
Lease liabilities	1,955	1,965
	1,955	2,747
Less: Amount capitalised (<i>note</i>)	–	(782)
	1,955	1,965

Note: Borrowing costs of RMB nil (2022: RMB782,000) capitalised during the year ended 31 December 2023 arose on the general borrowing pool and are calculated by applying a capitalisation rate of nil% (2022: 2.1%) 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	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Auditors' remuneration	1,729	1,595
Cost of inventories sold recognised as expense	2,587,750	2,801,167
Depreciation of property, plant and equipment	132,640	130,769
Depreciation of investment property	849	849
Amortisation of right-of-use assets	2,882	2,606
Short-term lease payments	245	236
Impairment loss of other receivables	5,368	–
Written-off of other receivables	–	5,840
Employee benefit expenses (including directors' remuneration)		
– Wages and salaries	63,173	62,513
– Discretionary bonuses	41,143	37,544
– Retirement benefit scheme contributions (<i>note</i>)	12,455	11,152
– Staff welfare and other benefits	18,135	17,945
	134,906	129,154

Note: For the years ended 31 December 2023 and 2022, there were neither contributions forfeited by the Group nor had there been any utilisation of such forfeited contributions to reduce future contributions. As at 31 December 2023 and 2022, there were no forfeited contributions which were available for utilisation by the Group to reduce the existing level of contributions to the MPF Scheme and the Central Pension Schemes.

9. INCOME TAX EXPENSES

	Year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Current tax – PRC		
Current tax	64,757	69,561
Withholding tax on dividends	5,500	6,000
Deferred tax		
– Charged/(credited) for the year	4,279	(1,474)
	<u>74,536</u>	<u>74,087</u>

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% (2022: 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**”) except for one subsidiary of the Company as mentioned below:

Besides, according to the Notice on Implementing the Policy of Inclusive Tax Relief for Small and Micro Enterprises (“**SMEs**”), released by the Ministry of Finance on January 2021, qualified SMEs with annual taxable income below RMB1 million per year entitled to a preferential EIT rate of 10% on 25% of their income. Whereas, qualified SMEs with taxable income from RMB1 to 3 million entitled to a preferential EIT rate of 10% on 50% of their income, one of the subsidiaries is entitled to the preferential tax rate for the year ended 31 December 2023 and 2022.

10. DIVIDENDS AND DISTRIBUTION

Pursuant to the resolution passed by the shareholders of the Company at the Company's annual general meeting held on 25 May 2023, a final dividend of HK8 cents per ordinary share in respect of the year ended 31 December 2022, absorbing a total amount of HK\$49,675,520, was paid on 9 June 2023 to all shareholders whose names appeared on the register of members of the Company on 5 June 2023.

The Board recommended a final dividend of HK8 cents (2022: HK8 cents) per ordinary share, absorbing a total amount of HK\$49,675,520 (2022: HK\$49,675,520) in respect of the year ended 31 December 2023, 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 2024. 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	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Earnings for the purposes of basic and diluted earnings per share	<u>190,080</u>	<u>194,380</u>
Weighted average number of ordinary shares for the purposes of basic and diluted earnings per share	<u>620,944,000</u>	<u>620,944,000</u>

No diluted earnings per share is presented as there was no potential ordinary shares in issue during the years ended 31 December 2023 and 2022.

12. PROPERTY, PLANT AND EQUIPMENT

No impairment losses were recognised in respect of property, plant and equipment for the years ended 31 December 2023 and 2022. During the year ended 31 December 2023, additions to property, plant and equipment approximately amounted to RMB70,357,000 (2022: RMB45,842,000) and disposal of property, plant and equipment approximately amounted to RMB106,000 (2022: RMBnil).

13. INVENTORIES

	At 31 December 2023 <i>RMB'000</i>	At 31 December 2022 <i>RMB'000</i>
Raw materials	61,238	54,247
Finished goods	50,045	71,400
Parts and spares	<u>3,491</u>	<u>3,666</u>
	<u>114,774</u>	<u>129,313</u>

14. TRADE RECEIVABLES

	At 31 December 2023 <i>RMB'000</i>	At 31 December 2022 <i>RMB'000</i>
Trade receivables	<u>4,130</u>	<u>9,784</u>

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 2023 RMB'000	At 31 December 2022 RMB'000
Within 3 months	<u>4,130</u>	<u>9,784</u>

As at 31 December 2023 and 2022, none of the debtors included in the Group's trade receivables were past due.

15. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	At 31 December 2023 RMB'000	At 31 December 2022 RMB'000
Other tax recoverable	90,546	81,735
Prepayments for equipment	450	772
Prepayments to coal suppliers	18,209	74,507
Prepayments to employees	1,390	1,488
Deposits	55,662	662
Other prepayments and other receivables	<u>33,507</u>	<u>2,549</u>
	199,764	161,713
Less: written-off of other receivables (<i>note i</i>)	–	(23,360)
Less: impairment loss on other receivables (<i>note ii</i>)	<u>(5,368)</u>	<u>–</u>
	<u>194,396</u>	<u>138,353</u>
Represented by:		
Current portion	193,946	137,581
Non-current portion	<u>450</u>	<u>772</u>
	<u>194,396</u>	<u>138,353</u>

Note:

- (i) Written-off of other receivables represented the written-off recognised for a portion of “other tax receivables” as the recoverability of such amount was uncertain.
- (ii) According to the court judgement granted on 6 December 2023 arising from a contractual dispute, a supplier was obligated to refund the deposit and make compensation to a Company's subsidiary. However, the recoverability of the refund and compensation was unlikely after assessing the financial ability of the supplier by the Group. The impairment loss of RMB5,368,000 was recognised in profit or loss for the year ended 31 December 2023.

16. TRADE PAYABLES

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

	At 31 December 2023 <i>RMB'000</i>	At 31 December 2022 <i>RMB'000</i>
Trade payable	<u>68,674</u>	<u>50,062</u>

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

	At 31 December 2023 <i>RMB'000</i>	At 31 December 2022 <i>RMB'000</i>
0 to 90 days	48,137	29,605
91 to 180 days	3,410	637
181 to 365 days	671	1,110
Over 365 days	<u>16,456</u>	<u>18,710</u>
	<u>68,674</u>	<u>50,062</u>

17. OTHER PAYABLES AND ACCRUALS

	At 31 December 2023 <i>RMB'000</i>	At 31 December 2022 <i>RMB'000</i>
Accruals	22,381	14,479
Other payables (<i>note</i>)	<u>70,963</u>	<u>60,066</u>
	<u>93,344</u>	<u>74,545</u>

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

18. SHARE CAPITAL

	Number of shares '000	Amount US\$	Amount RMB'000
Authorised share capital: As at 1 January 2022, 31 December 2022, 1 January 2023 and 31 December 2023			
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 2022, 31 December 2022, 1 January 2023 and 31 December 2023			
	<u>620,944</u>	<u>62,094</u>	<u>392</u>

19. RELATED PARTY TRANSACTIONS AND BALANCES

Compensation of key management personnel of the Group

	Year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Short-term employee benefits	1,340	1,297
Retirement benefit scheme contributions	<u>16</u>	<u>15</u>
Total compensation paid to key management personnel	<u>1,356</u>	<u>1,312</u>

20. CAPITAL COMMITMENTS

	At 31 December 2023 RMB'000	At 31 December 2022 RMB'000
Commitments for the acquisition of property, plant and equipment: – contracted for but not provided	<u>5,243</u>	<u>20,566</u>

21. CONTINGENT LIABILITIES

As at 31 December 2023 and 2022, neither the Group nor the Company had any significant contingent liabilities.

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

During the Reporting Period, the urea and chemical industry in the People's Republic of China ("China") experienced shifts in market dynamics influenced by global economic trends and environmental considerations. Despite facing challenges such as fluctuating raw material costs and market uncertainties, the industry demonstrated resilience and adaptability. After the epidemic, cities in China focused on economic recovery, transportation restrictions were reduced, and urea sales and prices increased due to the rise in domestic and foreign demand. However, after the growth of domestic urea sales in the first quarter of 2023, as coal prices gradually returned to a reasonable range, and coupled with the fact that demand and exports were less than expected, the market selling prices of coal chemical related products began to show a certain degree of downward adjustment. Nevertheless the urea sales and prices bounced back in the fourth quarter of 2023, and as a result the Group's overall financial performance substantially recovered from the first half of 2023.

During the Reporting Period, the Group recorded a slight decrease in profit by approximately RMB8.0 million or 4.0%, from approximately RMB202.1 million for the year ended 31 December 2022 to approximately RMB194.1 million for the Reporting Period, mainly due to the increase of administrative expenses of the Group. The Group's revenue decreased by approximately RMB210.1 million or 6.7% from approximately RMB3,130.8 million for the year ended 31 December 2022 to approximately RMB2,920.7 million for the Reporting Period, mainly due to the decrease in the average selling price of urea. During the Reporting Period, the average selling price of the Group's urea products was approximately RMB2,189 per tonne, representing a decrease of approximately 8.1% from approximately RMB2,382 per tonne for the year ended 31 December 2022.

The Group has always adhered to the philosophy of innovative development, and has actively explored new markets and developed new products. The sales of vehicle urea solution, a urea by-product developed by the Group in recent years, continued to contribute significantly to the revenue of the Group's urea by-product during the Reporting Period. During the Reporting Period, the average selling price of the Group's vehicle urea solution products was approximately RMB1,363 per tonne, representing a decrease of approximately 11.1% from approximately RMB1,533 per tonne for the year ended 31 December 2022. Moreover, due to the effect of weaker sales demand, the Group's revenue generated from the sales of vehicle urea solution decreased by approximately RMB34.6 million or 17.4% from approximately RMB198.7 million for the year ended 31 December 2022 to approximately RMB164.1 million for the Reporting Period.

OPERATING AND FINANCIAL REVIEW

Revenue by Products

	Year ended 31 December 2023 RMB'000	Year ended 31 December 2022 RMB'000	% Change +/(-)
Urea	2,510,964	2,627,522	(4.4%)
Vehicle urea solution	164,124	198,707	(17.4%)
Methanol	130,715	151,452	(13.7%)
Other products	114,908	153,100	(24.9%)
Total	2,920,711	3,130,781	(6.7%)

Urea

Revenue from urea decreased by approximately RMB116.5 million, or 4.4%, from approximately RMB2,627.5 million for the year ended 31 December 2022 to approximately RMB2,511.0 million during the Reporting Period, as the average selling price of the Group's urea decreased by approximately RMB193 per tonne, or 8.1%, from approximately RMB2,382 per tonne for the year ended 31 December 2022 to approximately RMB2,189 per tonne for the Reporting Period, mainly due to the fluctuation of market conditions during the Reporting Period. The sales volume of urea slightly increased by approximately 4.0% for the Reporting Period as compared to the year ended 31 December 2022.

Vehicle urea solution

Revenue from vehicle urea solution decreased by approximately RMB34.6 million, or 17.4%, from approximately RMB198.7 million for the year ended 31 December 2022 to approximately RMB164.1 million during the Reporting Period, mainly due to the decrease of the sales volume because of the slowing down of the domestic economy during the Reporting Period. The average selling price of the Group's vehicle urea solution products decreased by approximately RMB170 per tonne, or 11.1%, from approximately RMB1,533 per tonne for the year ended 31 December 2022 to approximately RMB1,363 per tonne for the Reporting Period.

Methanol

Revenue from methanol decreased by approximately RMB20.8 million, or 13.7%, from approximately RMB151.5 million for the year ended 31 December 2022 to approximately RMB130.7 million during the Reporting Period, mainly due to the decrease of sales volume. The average selling price of the Group's methanol decreased by approximately RMB157 per tonne, or 8.4%, from approximately RMB1,860 per tonne for the year ended 31 December 2022 to approximately RMB1,703 per tonne for the Reporting Period, mainly due to the decrease of energy prices during the Reporting Period.

Other products

Other products include carbon dioxide, liquid ammonia, compound fertiliser and LNG. Revenue from other products decreased by approximately RMB38.2 million, or 24.9%, from approximately RMB153.1 million for the year ended 31 December 2022 to approximately RMB114.9 million for the Reporting Period mainly due to the decrease in revenue of the Group's liquid ammonia and LNG products during the Reporting Period. The decrease in revenue of liquid ammonia was mainly due to the decrease in market demand for the Reporting Period; and the decrease in revenue of LNG was mainly due to the decrease of average selling price for the Reporting Period.

Cost of sales

The Group's cost of sales decreased by approximately RMB213.4 million, or 7.6%, from approximately RMB2,801.2 million for the year ended 31 December 2022 to approximately RMB2,587.8 million for the Reporting Period, primarily due to the decrease in raw materials costs during the Reporting Period.

Gross Profit and Gross Profit Margin

	Year ended 31 December 2023		Year ended 31 December 2022		Change	
	Gross Profit <i>RMB'000</i>	Margin %	Gross Profit <i>RMB'000</i>	Margin %	<i>RMB'000</i>	%
Urea	347,588	13.8	329,971	12.6	17,617	5.3
Vehicle urea solution	16,088	9.8	24,299	12.2	(8,211)	(33.8)
Methanol	(58,081)	(44.4)	(72,638)	(48.0)	14,557	(20.0)
Other products	27,366	23.8	47,982	31.3	(20,616)	(43.0)
Total	332,961	11.4	329,614	10.5	3,347	1.0

The Group's gross profit increased slightly by approximately RMB3.3 million, or 1.0%, from approximately RMB329.6 million for the year ended 31 December 2022 to approximately RMB333.0 million for the Reporting Period, primarily due to the decrease in the Group's cost of sales resulting from the decrease in the average purchase price of coals which is a major raw material for the production of the urea products. As a result of the lower percentage decrease in revenue than the percentage decrease of cost of sales during the Reporting Period, the Group's gross profit margin increased from approximately 10.5% for the year ended 31 December 2022 to approximately 11.4% for the Reporting Period.

Other income

Other income increased by approximately RMB7.9 million, or 79.8%, from approximately RMB9.9 million for the year ended 31 December 2022 to approximately RMB17.8 million for the Reporting Period, primarily due to the increase of bank interest income and the increase of gain on financial assets at fair value through profit or loss which attributed to the investment gain from trading of urea futures contracts, and the write off of certain long outstanding trade payables during the Reporting Period.

Other losses, net

Other losses, (net) decreased by approximately RMB2.4 million, or 53.3%, from approximately RMB4.5 million for the year ended 31 December 2022 to approximately RMB2.1 million for the Reporting Period, primarily due to increase of the net gain on sales of scrap materials was recorded during the Reporting Period.

Administrative expenses

Administrative expenses increased by approximately RMB20.8 million, or 39.1%, from approximately RMB53.2 million for the year ended 31 December 2022 to approximately RMB74.0 million for the Reporting Period, primarily due to the increase in staff salaries and welfare expenses and increase in repairs and maintenance costs for production line during the Reporting Period.

Distribution expenses

Distribution expenses increased by approximately RMB0.5 million, or 13.9%, from approximately RMB3.6 million for the year ended 31 December 2022 to approximately RMB4.1 million for the Reporting Period, primarily due to the increase in staff salaries and welfare expenses for the Reporting Period.

Finance costs

There was no material fluctuation for finance costs between the Reporting Period and the year ended 31 December 2022.

Taxation

There was no material fluctuation for income tax expenses between the Reporting Period and the year ended 31 December 2022.

Profit for the year

Profit for the year decreased by approximately RMB8.0 million or 4.0% from approximately RMB202.1 million for the year ended 31 December 2022 to approximately RMB194.1 million for the Reporting Period. This was mainly due to the increase in administrative expenses of approximately RMB20.8 million during the Reporting Period as mentioned above. The decrease in profit for the Reporting Period was partially offset by the increase in gross profit of approximately RMB3.3 million, the increase in other income of approximately RMB7.9 million and the decrease in other losses of approximately RMB2.4 million during the Reporting Period.

CAPITAL STRUCTURE

As at 31 December 2023, the Group had net assets of approximately RMB1,767.2 million (as at 31 December 2022: approximately RMB1,620.4 million), comprising of non-current assets of approximately RMB985.4 million (as at 31 December 2022: approximately RMB1,057.0 million), and current assets of approximately RMB1,115.8 million (as at 31 December 2022: approximately RMB812.1 million), which primarily consist of cash and bank balances amounted to approximately RMB797.8 million (as at 31 December 2022: approximately RMB535.5 million). Moreover, inventories amounted to approximately RMB114.8 million (as at 31 December 2022: approximately RMB129.3 million) and prepayments, deposit and other receivables amounted to approximately RMB193.9 million (as at 31 December 2022: approximately RMB137.6 million) are also major current assets. The Group recorded a net current assets position of approximately RMB821.6 million as at 31 December 2023 (as at 31 December 2022: net current assets of approximately RMB600.0 million). Major current liabilities include trade payables amounted to approximately RMB68.7 million (as at 31 December 2022: approximately RMB50.1 million), other payables and accruals amounted to approximately RMB93.3 million (as at 31 December 2022: approximately RMB74.5 million) and contract liabilities amounted to approximately RMB105.0 million (as at 31 December 2022: approximately RMB80.4 million).

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2023, the Group had cash and bank balances of approximately RMB797.8 million (as at 31 December 2022: approximately RMB535.5 million) and had no interest-bearing bank borrowings (as at 31 December 2022: nil).

As at 31 December 2023, as the Group had no interest-bearing bank borrowings, the gearing ratio for the Group was 0% (as at 31 December 2022: 0%), calculated based on bank borrowings of the Group and equity attributable to owners of the Company. The Group would serve its debts primarily with cash flow generated from its operation, seeking 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

Looking ahead, challenges such as fluctuating commodity prices and global economic uncertainties require the industry to remain agile and adaptable. Strategic planning, market intelligence, and continuous innovation will be imperative to navigate these challenges and capitalize on emerging opportunities. The chemical fertilizer industry in China has demonstrated resilience, innovation, and a commitment to sustainable practices. By embracing technology, prioritizing environmental responsibility, and collaborating with stakeholders, the industry is well-positioned for continued success in the evolving landscape of agriculture sector. In the context of international trade, China's position as a major exporter of urea is likely to strengthen, contributing to the global agricultural supply chain. Strategic partnerships and trade agreements will play a pivotal role in facilitating the smooth flow of urea products across borders, ensuring stability and sustainability in the market.

The Group will continue to consolidate and develop its existing market and industry position and do its best to increase shareholder value. In addition, the Group will continue to promote its growth strategies, including increasing production capacity, improving production quality and efficiency, expanding the value chain to urea-related products, strengthening relationships with major customers, and expanding customer base, while seeking to establish strategic relationships and identify acquisition opportunities to achieve sustainable and steady development and actively respond to future challenges, with a view to providing more efficient and environmentally friendly products and high-quality services.

FOREIGN CURRENCY EXPOSURE

The Group was 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 2023, capital commitment of the Group which had been contracted for but not provided in the financial statements was approximately RMB5.2 million (as at 31 December 2022: approximately RMB20.6 million).

CHARGE ON ASSETS

As at 31 December 2023, there was no charge over any assets of the Group.

CONTINGENT LIABILITIES

As at 31 December 2023, the Group did not have any material contingent liabilities (as at 31 December 2022: Nil).

EMPLOYEES AND EMOLUMENT POLICY

As at 31 December 2023, the Group employed a total of 1,292 employees (as at 31 December 2022: 1,312 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 RMB134.9 million (year ended 31 December 2022: RMB129.2 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, ASSOCIATED AND JOINT VENTURES COMPANIES

There was no material acquisition or disposal of subsidiaries, associated companies or joint ventures 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 HK8 cents (2022: HK8 cents) per ordinary share, absorbing a total amount of about HK\$49.7 million (2022: HK\$49.7 million), in respect of the year ended 31 December 2023 (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 Thursday, 23 May 2024 (the "**2024 AGM**"). The Proposed Final Dividend is expected to be paid on Friday, 7 June 2024 to all shareholders whose names to be appeared on the register of members of the Company on Monday, 3 June 2024.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 20 May 2024 to Thursday, 23 May 2024 (both days inclusive) for the purpose of determining the right to attend and vote at the 2024 AGM. In order to be qualified for attending and voting at the 2024 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 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, for registration not later than 4:30 p.m. on Friday, 17 May 2024.

Conditional on the passing of the resolution approving the declaration of the Proposed Final Dividend at the 2024 AGM, the register of members of the Company will also be closed from Thursday, 30 May 2024 to Monday, 3 June 2024 (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 2024 AGM), unregistered holders of shares of the Company should ensure that all share transfer documents accompanied by the corresponding share certificates are lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at the address stated above for registration not later than 4:30 p.m. on Wednesday, 29 May 2024.

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 2023 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 Part 2 of Appendix C1 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 C3 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, 22 March 2024

As at the date of this announcement, the Board comprises Mr. WANG Zhihe, Mr. SUN Zushan, Mr. XU Xijiang and Mr. WANG Chunmeng as executive directors; Ms. CHEN Jimin as non-executive director; Ms. LIN Xiuxiang, Mr. LIU Jincheng and Mr. NG Sai Leung as independent non-executive directors.