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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 2022**

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 2022 (the “**Reporting Period**”). The relevant financial figures for the corresponding period or dates in 2021 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 2022

		Year ended 31 December	
		2022	2021
	<i>Note</i>	RMB'000	<i>RMB'000</i>
Revenue	4	3,130,781	2,880,934
Cost of sales		<u>(2,801,167)</u>	<u>(2,422,121)</u>
Gross profit		329,614	458,813
Other income	4	9,882	7,107
Other (losses)/gains, net	5	(4,467)	3,465
Administrative expenses		(53,204)	(63,965)
Distribution expenses		(3,634)	(3,328)
Finance costs	7	<u>(1,965)</u>	<u>(17,438)</u>
Profit before income tax	8	276,226	384,654
Income tax expenses	9	<u>(74,087)</u>	<u>(109,072)</u>
Profit for the year		202,139	275,582
Other comprehensive income that may be reclassified to profit or loss in subsequent periods			
Exchange differences on translation of foreign operation		<u>53</u>	<u>(5,188)</u>
Total comprehensive income for the year attributable to owners of the Company		<u>202,192</u>	<u>270,394</u>
Profit attributable to:			
– Owners of the Company		194,380	266,081
– Non-controlling interest		<u>7,759</u>	<u>9,501</u>
		<u>202,139</u>	<u>275,582</u>
Total comprehensive income attributable to:			
– Owners of the Company		194,433	260,893
– Non-controlling interest		<u>7,759</u>	<u>9,501</u>
		<u>202,192</u>	<u>270,394</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>31.3</u>	<u>42.9</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2022

		As at 31 December	
		2022	2021
	Note	RMB'000	RMB'000
Non-current assets			
Property, plant and equipment	12	929,729	1,014,656
Investment property		13,130	13,979
Right-of-use assets		113,240	115,846
Unlisted equity investment at fair value through other comprehensive income		40	40
Prepayments for equipment & land lease	15	772	3,657
Deferred tax assets		60	–
		<u>1,056,971</u>	<u>1,148,178</u>
Total non-current assets			
Current assets			
Inventories	13	129,313	139,247
Trade receivables	14	9,784	17,741
Notes receivables		–	100
Prepayments, deposits and other receivables	15	137,581	110,202
Cash and bank balances		535,466	425,061
		<u>812,144</u>	<u>692,351</u>
Total current assets			

		As at 31 December	
		2022	2021
	<i>Note</i>	RMB'000	<i>RMB'000</i>
Current liabilities			
Trade payables	<i>16</i>	50,062	54,380
Deferred revenue		826	826
Contract liabilities	<i>4</i>	80,380	70,810
Other payables and accruals	<i>17</i>	74,545	87,846
Lease liabilities		242	77
Short-term bank loans	<i>18</i>	–	96,000
Income tax payable		6,001	12,617
Amount due to a non-controlling shareholder of a subsidiary		40	40
		<hr/>	<hr/>
Total current liabilities		212,096	322,596
		<hr/>	<hr/>
Net current assets		600,048	369,755
		<hr/>	<hr/>
Non-current liabilities			
Lease liabilities		28,120	28,211
Deferred revenue		3,169	3,995
Deferred tax liabilities		5,302	6,716
		<hr/>	<hr/>
Total non-current liabilities		36,591	38,922
		<hr/>	<hr/>
Net assets		1,620,428	1,479,011
		<hr/>	<hr/>
Capital and reserves attributable to owners of the Company			
Share capital	<i>19</i>	392	392
Reserves		1,608,533	1,465,565
		<hr/>	<hr/>
Equity attributable to owners of the Company		1,608,925	1,465,957
Non-controlling interests		11,503	13,054
		<hr/>	<hr/>
Total equity		1,620,428	1,479,011
		<hr/>	<hr/>

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 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.

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 2022.

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, 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 IAS 16, Proceeds before Intended Use
- Amendments to IAS 37, Onerous Contracts - Cost of Fulfilling a Contract
- Amendments to IFRS 3, Reference to the Conceptual Framework
- Amendments to IFRSs, Annual Improvements to IFRSs 2018-2020

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.

(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.

- IFRS 17, Insurance Contracts and the related Amendments¹
- Amendments to IAS 1, Classification of Liabilities as Current or Non-current²
- Amendments to IAS 1 and IFRS Practice Statement 2, Disclosure of Accounting Policies¹
- Amendments to IAS 1, Non-current Liabilities with Covenants²
- Amendments to IAS 8, Definition of Accounting Estimates¹
- Amendments to IAS 12, Deferred Tax related to Assets and Liabilities arising from a Single Transaction¹
- Amendments to IFRS 10 and IAS 28, Sale or Contribution of Assets between an Investor and its Associate or Joint Venture³
- Amendment to IFRS 16, Lease Liability in a Sale and Leaseback²

¹ Effective for annual periods beginning on or after 1 January 2023.

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

³ 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.

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	
	2022	2021
	RMB'000	RMB'000
Revenue		
Primary geographical market		
– PRC	<u>3,130,781</u>	<u>2,880,934</u>
Major products		
– Sales of urea	2,627,522	2,281,685
– Sales of methanol	151,452	159,577
– Sales of liquid ammonia	62,273	82,922
– Sales of carbon dioxide	20,296	42,829
– Sales of LNG	39,498	31,417
– Sales of compound fertiliser	31,033	20,209
– Sales of vehicle urea solution	<u>198,707</u>	<u>262,295</u>
Total revenue from contracts with customers	<u>3,130,781</u>	<u>2,880,934</u>
Timing of revenue recognition		
– At a point in time	<u>3,130,781</u>	<u>2,880,934</u>
Other income is presented as follows:		
Sales of scrap materials	–	227
Government grants	3,120	3,344
Bank interest income	5,335	5,373
Rental income	–	47
Gain/(loss) on financial assets at fair value through profit or loss	461	(3,141)
Gain on disposal of a subsidiary	–	398
Refund for insurance compensation	–	711
Written off of trade payable	970	–
Others	<u>(4)</u>	<u>148</u>
	<u>9,882</u>	<u>7,107</u>

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

	31 December 2022 RMB'000	31 December 2021 RMB'000
Contract liabilities from sales of goods	<u>80,380</u>	<u>70,810</u>

Contract liabilities mainly relate to the advance consideration received from customers. RMB 70,810,000 (2021: RMB64,814,000) of the contract liabilities has been recognised as revenue from performance obligation satisfied during the year when the goods were sold.

5. OTHER (LOSSES)/GAINS, NET

	Year ended 31 December	
	2022 RMB'000	2021 RMB'000
Foreign exchange (losses)/gains	(2,298)	3,465
Net loss on sales of scrap materials	<u>(2,169)</u>	<u>–</u>
	<u>(4,467)</u>	<u>3,465</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	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Interest expense in relation to:		
Bank loans wholly repayable within five years	782	16,045
Lease liabilities	<u>1,965</u>	<u>1,973</u>
	2,747	18,018
Less: Amount capitalised (<i>note</i>)	<u>(782)</u>	<u>(580)</u>
	<u>1,965</u>	<u>17,438</u>

Note: Borrowing costs of RMB782,000 (2021: RMB580,000) capitalised during the year arose on the general borrowing pool and are calculated by applying a capitalisation rate of 2.1% (2021: 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	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Auditors' remuneration	1,595	1,388
Cost of inventories sold recognised as expense	2,801,167	2,422,121
Depreciation of property, plant and equipment	130,769	158,718
Depreciation of investment property	849	849
Amortisation of right-of-use assets	2,606	2,991
Short-term lease payments	236	210
Impairment of prepayments and other receivables	5,840	17,520
Employee benefit expenses		
(including directors' remuneration)		
– Wages and salaries	62,513	56,682
– Discretionary bonuses	37,544	31,845
– Retirement benefit scheme contributions (<i>note</i>)	18,211	16,594
– Staff welfare and other benefits	23,751	16,370
	<u>142,019</u>	<u>121,491</u>

Note: For the years ended 31 December 2022 and 2021, 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 2022 and 2021, 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	
	2022	2021
	RMB'000	RMB'000
Current tax – PRC		
Current tax	69,561	101,934
Withholding tax on dividends	6,000	2,826
Deferred tax		
– (Credited)/charged for the year	(1,474)	4,312
	74,087	109,072

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% (2021: 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 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 27 May 2022, a final dividend of HK10 cents per ordinary share in respect of the year ended 31 December 2021, absorbing a total amount of HK\$62,094,400, was paid on 10 June 2022 to all shareholders whose names appeared on the register of members of the Company on 6 June 2022.

The Board recommended a final dividend of HK8 cents (2021: HK10 cents) per ordinary share, absorbing a total amount of HK\$49,675,520 (2021: HK\$62,094,400) in respect of the year ended 31 December 2022, 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 2023. 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	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Earnings for the purposes of basic and diluted earnings per share	<u>194,380</u>	<u>266,081</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 2022 and 2021.

12. PROPERTY, PLANT AND EQUIPMENT

No impairment losses were recognised in respect of property, plant and equipment for the years ended 31 December 2022 and 2021. During the year ended 31 December 2022, additions to property, plant and equipment approximately amounted to RMB45,842,000 (2021: RMB71,139,000) and disposal of property, plant and equipment of a subsidiary approximately amounted to RMBnil (2021: RMB8,044,000). No disposals of property, plant and equipment were noted for the year ended 31 December 2022 and 2021.

13. INVENTORIES

	At	At
	31 December 2022	31 December 2021
	<i>RMB'000</i>	<i>RMB'000</i>
Raw materials	54,247	82,265
Finished goods	71,400	53,799
Parts and spares	<u>3,666</u>	<u>3,183</u>
	<u>129,313</u>	<u>139,247</u>

14. TRADE RECEIVABLES

	At 31 December 2022 <i>RMB'000</i>	At 31 December 2021 <i>RMB'000</i>
Trade receivables	<u>9,784</u>	<u>17,741</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 2022 <i>RMB'000</i>	At 31 December 2021 <i>RMB'000</i>
Within 3 months	<u>9,784</u>	<u>17,741</u>

As at 31 December 2022 and 2021, none of the debtors included in the Group's trade receivables were past due.

15. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	At 31 December 2022 <i>RMB'000</i>	At 31 December 2021 <i>RMB'000</i>
Other tax recoverable	81,735	58,834
Prepayments for utilities	–	3,151
Prepayments for equipment	772	3,657
Prepayments to coal suppliers	74,507	61,079
Prepayments to employees	1,488	573
Other prepayments, deposits and other receivables	<u>3,211</u>	<u>4,085</u>
	161,713	131,379
Less: impairment loss on other receivables	–	(17,520)
Less: written-off of other receivables (<i>note</i>)	<u>(23,360)</u>	<u>–</u>
	<u>138,353</u>	<u>113,859</u>
Represented by:		
Current portion	137,581	110,202
Non-current portion	<u>772</u>	<u>3,657</u>
	<u>138,353</u>	<u>113,859</u>

Note: 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.

16. TRADE PAYABLES

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

	At 31 December 2022 <i>RMB'000</i>	At 31 December 2021 <i>RMB'000</i>
Trade payable	<u>50,062</u>	<u>54,380</u>

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

	At 31 December 2022 <i>RMB'000</i>	At 31 December 2021 <i>RMB'000</i>
0 to 90 days	29,605	32,958
91 to 180 days	637	591
181 to 365 days	1,110	1,758
Over 365 days	<u>18,710</u>	<u>19,073</u>
	<u>50,062</u>	<u>54,380</u>

17. OTHER PAYABLES AND ACCRUALS

	At 31 December 2022 <i>RMB'000</i>	At 31 December 2021 <i>RMB'000</i>
Accruals	14,479	17,090
Other payables (<i>note</i>)	<u>60,066</u>	<u>70,756</u>
	<u>74,545</u>	<u>87,846</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. BANK LOANS

	At 31 December 2022 RMB'000	At 31 December 2021 RMB'000
Current		
Interest bearing		
Secured		
– Short-term bank loans (<i>note (i)</i>)	–	76,000
Unsecured		
– Short-term bank loans	–	20,000
	<u>–</u>	<u>96,000</u>

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

	At 31 December 2022 RMB'000	At 31 December 2021 RMB'000
Within one year	<u>–</u>	<u>96,000</u>

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.

19. SHARE CAPITAL

	Number of shares '000	Amount US\$	Amount RMB'000
Authorised share capital:			
As at 1 January 2021, 31 December 2021, 1 January 2022 and 31 December 2022			
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 2021, 31 December 2021, 1 January 2022 and 31 December 2022	<u>620,944</u>	<u>62,094</u>	<u>392</u>

20. RELATED PARTY TRANSACTIONS AND BALANCES

Compensation of key management personnel of the Group

	Year ended 31 December	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Short-term employee benefits	1,297	1,227
Retirement benefit scheme contributions	<u>15</u>	<u>15</u>
Total compensation paid to key management personnel	<u>1,312</u>	<u>1,242</u>

21. CAPITAL COMMITMENTS

	At	At
	31 December	31 December
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Commitments for the acquisition of property, plant and equipment: – contracted for but not provided	<u>20,566</u>	<u>18,161</u>

22. CONTINGENT LIABILITIES

As at 31 December 2022 and 2021, neither the Group nor the Company had any significant contingent liabilities.

23. 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, under the influence of the outbreak of the COVID-19 in various parts of the People's Republic of China (the "PRC") and the tension between Russia and Ukraine, the international energy shortages have led to the continuous rise of global energy and food prices. In addition, many countries around the world have restricted urea exports, which drove the demand for fertilizers and chemical products. The complex and ever-changing international situation has led to increasing uncertainties in the market, rising energy prices in the international market, continued tight domestic energy and coal supply, and rising urea prices with frequent fluctuations.

During the Reporting Period, the Group recorded an increase in revenue. However, the Group's net profit decreased by approximately RMB73.4 million or 26.7%, from approximately RMB275.6 million for the year ended 31 December 2021 to approximately RMB202.1 million for the Reporting Period, mainly due to the decrease of overall gross profit and gross profit margin. The decrease in overall gross profit and gross profit margin was primarily due to the increase in the Group's cost of sales which was primarily due to the increase in raw material costs. Nevertheless, due to the increase in average selling prices of the Group's urea products, the Group's revenue increased by approximately RMB249.8 million or 8.7%, from approximately RMB2,880.9 million for the year ended 31 December 2021 to approximately RMB3,130.8 million for the Reporting Period.

During the Reporting Period, the average selling price of the Group's urea products was approximately RMB2,382 per tonne, representing an increase of approximately 17.8% from approximately RMB2,022 per tonne for the year ended 31 December 2021. In addition, the Group's administrative expenses and finance costs decreased for the Reporting Period as compared to the year ended 31 December 2021, mainly attributable to the decrease in provision for other receivables and decrease in interest-bearing bank borrowings, which partially offset the aforementioned negative impact on the cost of sales, gross profit and net profit of the Group.

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 newly 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 RMB1,533 per tonne, representing an increase of approximately 0.2% from approximately RMB1,530 per tonne for the year ended 31 December 2021. However, due to the effect of sales demand, the Group's revenue generated from the sales of vehicle urea solution decreased by approximately RMB63.6 million or 24.2% from approximately RMB262.3 million for the year ended 31 December 2021 to approximately RMB198.7 million for the Reporting Period.

As a result of the increase in cost of sales and the higher percentage increase in cost of sales than the percentage increase in revenue during the Reporting Period, the Group's gross profit and net profit both decreased during the Reporting Period.

OPERATING AND FINANCIAL REVIEW

Revenue by Products

	Year ended 31 December 2022 RMB'000	Year ended 31 December 2021 RMB'000	% Change + / (-)
Urea	2,627,522	2,281,685	15.2%
Vehicle urea solution	198,707	262,295	-24.2%
Methanol	151,452	159,577	-5.1%
Other products	153,100	177,377	-13.7%
Total	3,130,781	2,880,934	8.7%

Urea

Revenue from urea increased by approximately RMB345.9 million, or 15.2%, from approximately RMB2,281.7 million for the year ended 31 December 2021 to approximately RMB2,627.5 million during the Reporting Period, as the average selling price of the Group's urea increased by approximately RMB360 per tonne, or 17.8%, from approximately RMB2,022 per tonne for the year ended 31 December 2021 to approximately RMB2,382 per tonne for the Reporting Period, mainly due to the continued growth of the domestic fertilizer and chemical product market during the Reporting Period. The sales volume of urea slightly decreased by approximately 2.2%, mainly due to the outbreak of COVID-19 which slowed down the production and transportation of the Group's products for the Reporting Period as compared to the year ended 31 December 2021.

Vehicle urea solution

Revenue from vehicle urea solution decreased by approximately RMB63.6 million, or 24.2%, from approximately RMB262.3 million for the year ended 31 December 2021 to approximately RMB198.7 million during the Reporting Period, mainly due to the decrease of the sales volume because of the outbreak of COVID-19 in various part of the PRC which slowed down the vehicle urea solution demand during the Reporting Period. The average selling price of the Group's vehicle urea solution products increased by approximately RMB3 per tonne, or 0.2%, from approximately RMB1,530 per tonne for the year ended 31 December 2021 to approximately RMB1,533 per tonne for the Reporting Period.

Methanol

Revenue from methanol decreased by approximately RMB8.1 million, or 5.1%, from approximately RMB159.6 million for the year ended 31 December 2021 to approximately RMB151.5 million during the Reporting Period, mainly due to the decrease of sales volume. The average selling price of the Group's methanol increased by approximately RMB48 per tonne, or 2.6%, from approximately RMB1,812 per tonne for the year ended 31 December 2021 to approximately RMB1,860 per tonne for the Reporting Period, mainly due to the increase in 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 RMB24.3 million, or 13.7%, from approximately RMB177.4 million for the year ended 31 December 2021 to approximately RMB153.1 million for the Reporting Period mainly due to the decrease in revenue of the Group's liquid ammonia and carbon dioxide products during the Reporting Period. The decrease in revenue of liquid ammonia was mainly due to the decrease of sales volume for the Reporting Period; and the decrease in revenue of carbon dioxide was mainly due to the decrease of sales volume and average selling price for the Reporting Period.

Cost of sales

The Group's cost of sales increased by approximately RMB379.0 million, or 15.6%, from approximately RMB2,422.1 million for the year ended 31 December 2021 to approximately RMB2,801.2 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 2022		Year ended 31 December 2021		Change	
	Gross Profit <i>RMB'000</i>	Margin %	Gross Profit <i>RMB'000</i>	Margin %	<i>RMB'000</i>	%
Urea	329,971	12.6	393,212	17.2	(63,241)	(16.1)
Vehicle urea solution	24,299	12.2	32,657	12.5	(8,358)	(25.6)
Methanol	(72,638)	(48.0)	(36,190)	(22.7)	(36,448)	(100.7)
Other products	47,982	31.3	69,134	39.0	(21,152)	(30.6)
Total	<u>329,614</u>	10.5	<u>458,813</u>	15.9	<u>(129,199)</u>	(28.2)

The Group's gross profit decreased by approximately RMB129.2 million, or 28.2%, from approximately RMB458.8 million for the year ended 31 December 2021 to approximately RMB329.6 million for the Reporting Period, primarily due to the increase in the Group's cost of sales resulting from the increase 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 increase in the Group's cost of sales and the higher percentage increase in cost of sales than the percentage increase of revenue during the Reporting Period, the Group's gross profit margin decreased from approximately 15.9% for the year ended 31 December 2021 to approximately 10.5% for the Reporting Period.

Other income

Other income increased by approximately RMB2.8 million, or 39.0%, from approximately RMB7.1 million for the year ended 31 December 2021 to approximately RMB9.9 million for the Reporting Period, primarily due to the 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/gains, net

Other loss (net) of approximately RMB4.5 million (2021: other gain of approximately RMB3.5 million) was recorded for the Reporting Period mainly due to the exchange loss of RMB to USD, and the net loss on sales of scrap materials during the Reporting Period.

Administrative expenses

Administrative expenses decreased by approximately RMB10.8 million, or 16.8%, from approximately RMB64.0 million for the year ended 31 December 2021 to approximately RMB53.2 million for the Reporting Period, primarily due to the decrease in the provision for other receivables for the Reporting Period, and such decrease was partially offset by the increase in staff salaries and welfare expenses and in legal and professional fees for the Reporting Period.

Distribution expenses

Distribution expenses increased by approximately RMB0.3 million, or 9.2%, from approximately RMB3.3 million for the year ended 31 December 2021 to approximately RMB3.6 million for the Reporting Period, primarily due to the increase in staff salaries and welfare expenses for the Reporting Period.

Finance costs

Finance costs decreased by approximately RMB15.5 million, or 88.7%, from approximately RMB17.4 million for the year ended 31 December 2021 to approximately RMB2.0 million for the Reporting Period, mainly due to the decrease in interest-bearing bank borrowings and therefore a decrease of interest for bank borrowings during the Reporting Period.

Taxation

Income tax expenses decreased by approximately RMB35.0 million, or 32.1%, from approximately RMB109.1 million for the year ended 31 December 2021 to approximately RMB74.1 million for the Reporting Period, primarily due to decrease in profit before taxation for the Report Period.

Profit for the year

Profit for the year decreased by approximately RMB73.4 million or 26.7% from approximately RMB275.6 million for the year ended 31 December 2021 to approximately RMB202.1 million for the Reporting Period. This was mainly due to the decrease in gross profit and gross profit margin during the Reporting Period as mentioned above. The decrease in profit for the Reporting Period was partially offset by the increase in other income of approximately RMB2.8 million, decrease in administrative expenses of approximately RMB10.8 million decrease in finance costs of approximately RMB15.5 million and decrease in income tax expense of RMB35.0 million.

CAPITAL STRUCTURE

As at 31 December 2022, the Group had net assets of approximately RMB1,620.4 million (as at 31 December 2021: approximately RMB1,479.0 million), comprising of non-current assets of approximately RMB1,057.0 million (as at 31 December 2021: approximately RMB1,148.2 million), and current assets of approximately RMB812.1 million (as at 31 December 2021: approximately RMB692.4 million), which primarily consist of cash and bank balances amounted to approximately RMB535.5 million (as at 31 December 2021: approximately RMB425.1 million). Moreover, inventories amounted to approximately RMB129.3 million (as at 31 December 2021: approximately RMB139.2 million) and prepayments, deposit and other receivables amounted to approximately RMB137.6 million (as at 31 December 2021: approximately RMB110.2 million) are also major current assets. The Group recorded a net current assets position of approximately RMB600.0 million as at 31 December 2022 (as at 31 December 2021: net current assets of approximately RMB369.8 million). Major current liabilities include trade payables amounted to approximately RMB50.1 million (as at 31 December 2021: approximately RMB54.4 million), other payables and accruals amounted to approximately RMB74.5 million (as at 31 December 2021: approximately RMB87.8 million), contract liabilities amounted to approximately RMB80.4 million (as at 31 December 2021: approximately RMB70.8 million) and interest-bearing bank borrowings amounted to nil (as at 31 December 2021: approximately RMB96.0 million).

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2022, the Group had cash and bank balances of approximately RMB535.5 million (as at 31 December 2021: approximately RMB425.1 million) and had no interest-bearing bank borrowings (as at 31 December 2021: approximately RMB96.0 million).

As at 31 December 2022, as the Group had no interest-bearing bank borrowings, the gearing ratio for the Group was 0% (as at 31 December 2021: 6.5%, calculated based on bank borrowings of approximately RMB96.0 million and equity attributable to owners of the Company of approximately RMB1,466.0 million). 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, as the COVID-19 epidemic receded, many countries have reopened the borders, and many industries in general have gradually resumed normal operations. The liberalization of epidemic prevention and control measures will play an important role in promoting global economic recovery and the overall recovery of the urea industry, and promote the urea industry to enter a new stage of stabilization and recovery. The domestic demand of chemical fertilizer is expected to maintain a consistent growth. In terms of industrial economy, along with the gradual commencements of new infrastructure projects in the PRC and the recovery of overseas economies, it is likely that the overall industrial demand for urea will continue to increase. In addition, the introduction of carbon neutrality and carbon peaks strategy in the PRC brings new challenges and opportunities for the chemical industry, and the supply and demand for chemical fertilizers remain uncertain. Green, ecological, and sustainable development have become the common sense of the global development, and even the essential requirements for enterprises to gain competitiveness in the future. Nevertheless, the Group has considerable advantages in energy conservation, emission reduction and green production. It always takes the lead in green development and takes ecological and environmental protection seriously, integrating the green development concept of “lucid waters and lush mountains are invaluable assets” into the whole process of production, operation and management.

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 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 2022, capital commitment of the Group which had been contracted for but not provided in the financial statements was approximately RMB20.6 million (as at 31 December 2021: approximately RMB18.2 million).

CHARGE ON ASSETS

As at 31 December 2022, there was no charge over any assets of the Group.

CONTINGENT LIABILITIES

As at 31 December 2022, the Group did not have any material contingent liabilities (as at 31 December 2021: Nil).

EMPLOYEES AND EMOLUMENT POLICY

As at 31 December 2022, the Group employed a total of 1,312 employees (as at 31 December 2021: 1,285 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 RMB142.0 million (year ended 31 December 2021: RMB121.5 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

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

SIGNIFICANT INVESTMENTS

There was no significant investment held by the Company during the Reporting Period.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the Reporting Period, neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

PROPOSED FINAL DIVIDEND

The Board recommended the payment of a final dividend of HK8 cents (2021: HK10 cents) per ordinary share, absorbing a total amount of about HK\$49.7 million (2021: HK\$62.1 million), in respect of the year ended 31 December 2022 (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, 25 May 2023 (the "**2023 AGM**"). The Proposed Final Dividend is expected to be paid on Friday, 9 June 2023 to all shareholders whose names to be appeared on the register of members of the Company on Monday, 5 June 2023.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 22 May 2023 to Thursday, 25 May 2023 (both days inclusive) for the purpose of determining the right to attend and vote at the 2023 AGM. In order to be qualified for attending and voting at the 2023 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, 19 May 2023.

Conditional on the passing of the resolution approving the declaration of the Proposed Final Dividend at the 2023 AGM, the register of members of the Company will also be closed from Thursday, 1 June 2023 to Monday, 5 June 2023 (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 2023 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, 31 May 2023.

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 2022 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 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”). The Board has reviewed the Company’s corporate governance practices and is satisfied that the Company has complied with the code provisions set out in the CG Code throughout the Reporting Period.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

PUBLICATION OF FINAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

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

APPRECIATION

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

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

The PRC, 24 March 2023

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.