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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 INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2023

The board (the "**Board**") of directors ("**Directors**") of Dongguang Chemical Limited (the "**Company**") is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (collectively, the "**Group**") for the six months ended 30 June 2023 (the "**Reporting Period**"). The relevant financial figures for the corresponding period in 2022 or other dates/periods are also set out in this announcement for comparative purposes.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2023

	Notes	Six months ended 30 June 2023 RMB'000 (Unaudited)	Six months ended 30 June 2022 RMB'000 (Unaudited)
Revenue	*5*	**1,619,754**	1,720,310
Cost of sales		**(1,495,341)**	(1,469,876)
Gross profit		**124,413**	250,434
Other income	*5*	**9,849**	2,830
Other gains or losses, net	*6*	**(6,571)**	(8,477)
Administrative expenses		**(24,553)**	(29,877)
Distribution expenses		**(1,818)**	(1,972)
Finance costs	*8*	**(985)**	(982)
Profit before income tax	*9*	**100,335**	211,956
Income tax expenses	*10*	**(25,878)**	(60,936)
Profit for the period		**74,457**	151,020
Other comprehensive income that may be reclassified to profit or loss in subsequent periods			
Exchange differences on translation of foreign operation		**9,099**	6,343
Total comprehensive income for the period attributable to owners of the Company		**83,556**	157,363
Profit for the period attributable to:			
– Owners of the Company		**70,775**	147,895
– Non-controlling interest		**3,682**	3,125
		74,457	151,020
Total comprehensive income for the period attributable to:			
– Owners of the Company		**79,874**	154,238
– Non-controlling interest		**3,682**	3,125
		83,556	157,363
		RMB cents	*RMB cents*
Earnings per share for profit attributable to the owners of the Company			
– Basic	*12*	**11.4**	23.8
– Diluted	*12*	**11.4**	23.8

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2023

	Notes	At 30 June 2023 RMB'000 (Unaudited)	At 31 December 2022 RMB'000 (Audited)
Non-current assets			
Property, plant and equipment	*13*	**908,261**	929,729
Investment property		**12,705**	13,130
Right-of-use assets		**111,467**	113,240
Unlisted equity investment at fair value through other comprehensive income		**40**	40
Prepayments for equipment and land lease	*16*	**608**	772
Deferred tax assets		**43**	60
Total non-current assets		**1,033,124**	1,056,971
Current assets			
Inventories	*14*	**55,161**	129,313
Trade receivables	*15*	**8,792**	9,784
Prepayments, deposits and other receivables	*16*	**143,856**	137,581
Cash and bank balances		**624,022**	535,466
Total current assets		**831,831**	812,144
Current liabilities			
Trade payables	*17*	**39,935**	50,062
Deferred revenue		**826**	826
Contract liabilities	*5*	**50,707**	80,380
Other payables and accruals	*18*	**77,851**	74,545
Financial liabilities at fair value through profit of loss		**320**	–
Lease liabilities		**239**	242
Income tax payable		**6,948**	6,001
Amount due to a non-controlling shareholder of a subsidiary	*20(a)*	**40**	40
Total current liabilities		**176,866**	212,096

	Note	At 30 June 2023 RMB'000 (Unaudited)	At 31 December 2022 RMB'000 (Audited)
Net current assets		**654,965**	600,048
Non-current liabilities			
Lease liabilities		**28,944**	28,120
Deferred revenue		**2,756**	3,169
Deferred tax liabilities		**3,286**	5,302
Total non-current liabilities		**34,986**	36,591
Net assets		**1,653,103**	1,620,428
Capital and reserves attributable to owners of the Company			
Share capital	*19*	**392**	392
Reserves		**1,644,386**	1,608,533
Equity attributable to owners of the Company		**1,644,778**	1,608,925
Non-controlling interests		**8,325**	11,503
Total equity		**1,653,103**	1,620,428

NOTES TO THE INTERIM CONDENSED 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. The address of its registered office is 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

These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 ("**IAS 34**"), issued by the International Accounting Standards Board ("**IASB**") and the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. These interim condensed consolidated financial statements were authorised for issue on 22 August 2023.

These interim condensed consolidated financial statements have been prepared with the same accounting policies adopted in the 2022 annual financial statements, except for those that relate to new standards or amendments effective for the first time for periods beginning on or after 1 January 2023. Details of any changes in accounting policies are set out in note 3. The adoption of the new and revised International Financial Reporting Standards (the "**IFRSs**") have no material effect on these interim condensed consolidated financial statements.

The preparation of these interim condensed consolidated financial statements in compliance with IAS 34 requires the use of certain judgements, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates. The areas where significant judgements and estimates have been made in preparing the interim condensed consolidated financial statements and their effect are disclosed in note 4.

These interim condensed consolidated financial statements are presented in Renminbi ("**RMB**"), unless otherwise stated. These interim condensed consolidated financial statements contain condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2022 annual financial statements. These interim condensed consolidated financial statements and notes do not include all of the information required for a complete set of financial statements prepared in accordance with the IFRSs and should be read in conjunction with the 2022 consolidated financial statements.

The interim condensed consolidated financial statements have been prepared under the historical cost convention except for certain financial instruments, which are measured at fair value.

These interim condensed consolidated financial statements are unaudited, but has been reviewed by BDO Limited in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity", issued by the HKICPA.

3. CHANGES IN IFRSs

The IASB has issued a number of new or amended IFRSs that are first effective for the current accounting period of the Group:

- 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 new or amended IFRSs that are effective from 1 January 2023 did not have any significant impact on the Group's accounting policies.

IFRS 17, Insurance Contracts and the related Amendments

In May 2017, the IASB issued IFRS 17 Insurance Contracts (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. IFRS 17 has replaced IFRS 4 Insurance Contracts (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, nonlife, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions has applied. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by:

- A specific adaption for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts

Certain contracts entered into by the Group, e.g. assurance type warranty to customers, meet the definition of insurance contracts under IFRS 17. However, these contracts are specifically scoped out from IFRS 17 and the Group continues to account for these contracts under relevant accounting standards. Therefore, the application of IFRS 17 in the current period had no material impact on the interim condensed consolidated financial statements.

Amendments to IAS 1 and IFRS Practice Statement 2, *Disclosure of Accounting Policies*

The amendments provide guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their "significant" accounting policies with a requirement to disclose their "material" accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

The application of the amendments in the current period had no material impact on the interim condensed consolidated financial statements but is expected to affect the disclosures of the Group's accounting policies in the Group's annual consolidated financial statements for the year ending 31 December 2023.

Amendments to IAS 8, *Definition of Accounting Estimates*

The amendments introduce a definition of "accounting estimates". The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates.

The Directors do not anticipate that the application of these amendments in the future will have a material impact on the interim condensed consolidated financial statements.

Amendments to IAS 12, *Deferred Tax related to Assets and Liabilities arising from a Single Transaction*

The amendments require entities to recognise deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. They typically apply to transactions such as leases of lessees and decommissioning obligations and will require the recognition of additional deferred tax assets and liabilities.

The amendments should be applied to transactions that occur on or after the beginning of the earliest comparative period presented. In addition, entities should recognise deferred tax assets (to the extent that it is probable that they can be utilised) and deferred tax liabilities at the beginning of the earliest comparative period for all deductible and taxable temporary differences associated with:

- right-of-use assets and lease liabilities, and

- decommissioning, restoration and similar liabilities, and the corresponding amounts recognized as part of the cost of the related assets.

The cumulative effect of recognising these adjustments is recognised in retained earnings, or another component of equity, as appropriate.

The Directors have performed an assessment on the above amendments to standards and interpretations and have concluded on a preliminary basis that these amendments would not have a significant impact on the Group's interim condensed consolidated financial statements in subsequent years.

Amendments to IAS 12 *International Tax Reform – Pillar Two Model Rules*

The amendments introduce a mandatory temporary exception from the recognition and disclosure of deferred taxes arising from the implementation of the Pillar Two model rules published by the Organisation for Economic Co-operation and Development. The amendments also introduce disclosure requirements for the affected entities to help users of the financial statements better understand the entities' exposure to Pillar Two income taxes, including the disclosure of current tax related to Pillar Two income taxes separately in the period when Pillar Two legislation is effective and the disclosure of known or reasonably estimable information of their exposure to Pillar Two income taxes in the period in which the legislation is enacted or substantively enacted but not yet in effect. Entities are required to disclose the information relating to their exposure to Pillar Two income taxes in the annual period beginning on or after 1 January 2023, but are not required to disclose such information for any interim period ending on or before 31 December 2023. The Group has applied the amendments retrospectively.

Since the Group did not fall within the scope of the Pillar Two model rules, the amendments did not have any impact to the Group.

4. USE OF JUDGEMENTS AND ESTIMATES

In preparing these interim condensed consolidated financial statements, the significant judgements made by the management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to 2022 annual financial statements.

5. 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.

	Six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Revenue		
Primary geographical market		
– PRC	**1,619,754**	1,720,310
Major products		
– Sales of urea	**1,372,940**	1,429,775
– Sales of methanol	**72,649**	77,704
– Sales of liquid ammonia	**363**	51,053
– Sales of carbon dioxide	**14,043**	8,454
– Sales of LNG	**17,247**	20,364
– Sales of compound fertiliser	**38,547**	29,816
– Sales of vehicle urea solution	**103,965**	103,144
	1,619,754	1,720,310
Timing of revenue recognition		
– At a point in time	**1,619,754**	1,720,310
Other income is presented as follows:		
Government grants	**1,830**	2,102
Bank interest income	**3,355**	1,935
Others	**4,664**	(1,207)
	9,849	2,830

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

	30 June 2023	31 December 2022
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Contract liabilities	**50,707**	80,380

Contract liabilities mainly relate to the advance consideration received from customers. During the six months ended 30 June 2023, RMB80,380,000 (year ended 31 December 2022: RMB70,810,000) of the contract liabilities that was included in the balance at the beginning of the period has been recognised as revenue from performance obligation satisfied during the period when the goods were sold.

6. OTHER GAINS OR LOSSES, NET

Other gains or losses, net has been arrived at:

	Six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Gain on investment recognised at fair value through profit or loss	**1,498**	330
Fair value loss on investment recognised at fair value through profit or loss	**(320)**	–
Foreign exchange losses	**(10,613)**	(8,807)
Gain on written off of trade payable	**2,864**	–
	(6,571)	(8,477)

7. 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 and by-products. The Group's assets and capital expenditure are principally attributable to this business component.

8. FINANCE COSTS

	Six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Interest expense in relation to:		
Bank and other loans wholly repayable within five years	**–**	782
Lease liabilities	**985**	982
	985	1,764
Less: Amount capitalised *(Note)*	**–**	(782)
	985	982

Note:

No borrowing costs of capitalised during the period ended 30 June 2023. Borrowing costs of RMB782,000 capitalised during the period ended 30 June 2022 arose on the general borrowing pool and are calculated by applying a capitalisation rate of 4.2% to expenditure on qualifying assets.

9. PROFIT BEFORE INCOME TAX

Profit before income tax is arrived at after charging:

	Six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Auditors' remuneration	**368**	340
Cost of inventories sold recognised as expense	**1,495,341**	1,469,876
Depreciation of property, plant and equipment	**64,158**	66,280
Depreciation of right-of-use assets	**1,773**	1,458
Depreciation of investment property	**425**	425
Written-off of other receivables *(Note)*	**–**	5,840
Employee benefit expenses (including directors' remuneration)		
– Wages and salaries	**46,333**	43,779
– Discretionary bonuses	**6,120**	9,125
– Retirement benefit scheme contributions	**8,773**	8,877
	61,226	61,781

Note:

Written-off of other receivables represented the written-off recognised for a portion of "other tax recoverable" which included in "prepayments, deposits and other receivables" as at 30 June 2022, because the recoverability of such amount was remote.

10. INCOME TAX EXPENSES

	Six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Current tax – PRC		
Current tax	**22,377**	56,579
Withholding tax on dividends	**5,500**	6,000
Deferred tax		
Credited for the period	**(1,999)**	(1,643)
	25,878	60,936

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 the six months ended 30 June 2023 and 2022.

The provision for Mainland China current income tax is based on the statutory rate of 25% of the assessable profit of the PRC subsidiary of the Group as determined in accordance with the PRC Corporation Income Tax Law which was approved and became effective on 1 January 2008 (the "**New Corporate Income Tax Law**").

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 are entitled to a preferential EIT rate of 10% on 25% of their income. Whereas, qualified SMEs with taxable income from RMB1 to 3 million are 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 period ended 30 June 2023.

11. DIVIDENDS AND DISTRIBUTION

During the six months ended 30 June 2023, a final dividend of HK$8 cents per ordinary share, absorbing a total amount of approximately HK$49,675,520 (equivalent to approximately RMB44,021,000) in respect of the year ended 31 December 2022 was approved at the Annual General Meeting held on 25 May 2023. Such final dividend was declared and paid to the shareholders of the Company. The Directors do not recommend the payment of an interim dividend in respect of the six months ended 30 June 2023 (six months ended 30 June 2022: nil).

12. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the following:

	Six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Earnings for the purposes of basic and diluted earnings per share	**70,775**	147,895
Weighted average number of ordinary shares for the purposes of basic and diluted earnings per share	**620,944,000**	620,944,000

Basic and diluted earnings per share are the same since there was no potential dilutive ordinary shares outstanding during the six months ended 30 June 2023 and 30 June 2022.

13. PROPERTY, PLANT AND EQUIPMENT

No impairment losses were recognised in respect of property, plant and equipment for both periods. During the six months ended 30 June 2023, additions to property, plant and equipment approximately amounted to RMB42,690,000 (six months ended 30 June 2022: RMB35,094,000).

14. INVENTORIES

	At 30 June 2023	At 31 December 2022
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Raw materials	**26,405**	54,247
Finished goods	**25,911**	71,400
Parts and spares	**2,845**	3,666
	55,161	129,313

15. TRADE RECEIVABLES

	At 30 June 2023 *RMB'000* (Unaudited)	At 31 December 2022 *RMB'000* (Audited)
Trade debtors	**8,792**	9,784

Included in trade receivables are trade debtors (net of impairment losses) with the following ageing analysis, based on invoice dates, as of the end of reporting period. The balances with trade debtors were not past due as at 30 June 2023.

	At 30 June 2023 *RMB'000* (Unaudited)	At 31 December 2022 *RMB'000* (Audited)
Within 3 months	**8,792**	9,784

16. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	At 30 June 2023 *RMB'000* (Unaudited)	At 31 December 2022 *RMB'000* (Audited)
Other tax recoverable	**74,853**	81,735
Prepayments for equipment	**608**	772
Prepayments to coal suppliers	**64,235**	74,507
Prepayments to employees	**1,137**	1,488
Other prepayments, deposits and other receivables	**3,631**	3,211
	144,464	161,713
Less: written-off of other receivables *(Note)*	**–**	(23,360)
	144,464	138,353

Represented by:

	At **30 June** **2023** ***RMB'000*** **(Unaudited)**	At 31 December 2022 *RMB'000* (Audited)
Current portion	**143,856**	137,581
Non-current portion	**608**	772
	144,464	138,353

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 remote.

17. 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 **30 June** **2023** ***RMB'000*** **(Unaudited)**	At 31 December 2022 *RMB'000* (Audited)
0 to 90 days	**23,270**	29,605
91 to 180 days	**41**	637
181 to 365 days	**319**	1,110
Over 365 days	**16,305**	18,710
	39,935	50,062

18. OTHER PAYABLES AND ACCRUALS

	At 30 June 2023 *RMB'000* **(Unaudited)**	At 31 December 2022 *RMB'000* (Audited)
Accruals	**14,276**	14,479
Other payables *(Note)*	**63,575**	60,066
	77,851	74,545

Note:

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

19. SHARE CAPITAL

	Number of shares *'000*	**Amount** *US$*	**Amount** *RMB'000*
Authorised share capital:			
As at 1 January 2022, 31 December 2022 and 30 June 2023			
Ordinary shares at US$0.0001 each	500,000,000	50,000,000	340,499
Issued share capital:			
As at 1 January 2022, 31 December 2022 and 30 June 2023	620,944	62,094	392

20. RELATED PARTY TRANSACTIONS AND BALANCES

(a) Amount due to a non-controlling shareholder of a subsidiary is unsecured, non-interest bearing and repayable on demand.

(b) Compensation of key management personnel of the Group

	Six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Short-term employee benefits	**655**	641
Retirement benefit scheme contributions	**8**	7
Total compensation paid to key management personnel	**663**	648

21. CAPITAL COMMITMENTS

	At	At
	30 June	31 December
	2023	2022
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Commitments for the acquisition of property, plant and equipment and leasehold land:		
– contracted for but not provided	**31,113**	20,566

22. CONTINGENT LIABILITIES

As at 30 June 2023, neither the Group nor the Company had any significant contingent liabilities (31 December 2022: nil).

23. EVENTS AFTER THE END OF THE REPORTING PERIOD

Except as disclosed elsewhere in the interim condensed consolidated financial statements, no significant event took place subsequent to 30 June 2023.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

In the first half of 2023, the urea and chemical industry in the People's Republic of China ("**China**") experienced certain changes and challenges after the relaxation of the epidemic prevention and control policy. After the epidemic, cities in China focused on economic recovery, transportation restrictions were reduced, and urea sales and prices increased due to 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, the market selling prices of coal chemical related products also began to show a certain degree of downward adjustment, coupled with the fact that demand and exports were less than expected, has resulted in a year-on-year decline in the prices of urea, the main product of the Group, which also affected the Group's performance during the Reporting Period.

During the Reporting Period, the Group recorded a decrease in profit by approximately RMB76.5 million or 50.7%, from approximately RMB151.0 million for the six months ended 30 June 2022 to approximately RMB74.5 million for the Reporting Period, mainly due to the decrease of overall gross profit and gross profit margin of the Group. The Group's revenue decreased by approximately RMB100.5 million or 5.8% from approximately RMB1,720.3 million for the six months ended 30 June 2022 to approximately RMB1,619.8 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 RMB2,213 per tonne, representing a decrease of approximately 13.8% from approximately RMB2,566 per tonne for the corresponding period in 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 RMB1,876 per tonne, representing an increase of approximately 10.5% from approximately RMB1,698 per tonne for the corresponding period in 2022. However, due to the effect of weaker sales demand, the Group's revenue generated from the sales of vehicle urea solution increased slightly by approximately RMB0.9 million or 0.9% from approximately RMB103.1 million for the six months ended 30 June 2022 to approximately RMB104.0 million for the Reporting Period.

OPERATING AND FINANCIAL REVIEW

Revenue by Products

	Six months ended 30 June 2023 *RMB'000*	Six months ended 30 June 2022 *RMB'000*	% Change +/(-)
Urea	**1,372,940**	1,429,775	(4.0)%
Vehicle urea solution	**103,965**	103,144	0.9%
Methanol	**72,649**	77,704	(6.6)%
Other products	**70,200**	109,687	(36.0)%
Total	**1,619,754**	1,720,310	(5.8)%

Urea

During the Reporting Period, the sales volume of urea increased by approximately 11.3% as compared to the six months ended 30 June 2022. However, revenue from urea decreased by approximately RMB56.9 million, or 4.0%, from approximately RMB1,429.8 million for the six months ended 30 June 2022 to approximately RMB1,372.9 million for the Reporting Period, as the average selling price of the Group's urea products decreased by approximately RMB353 per tonne, or 13.8%, from approximately RMB2,566 per tonne for the six months ended 30 June 2022 to approximately RMB2,213 per tonne for the Reporting Period, mainly due to the the downward adjustment of the market selling prices of coal chemical related products during the Reporting Period.

Vehicle urea solution

Revenue from vehicle urea solution increased by approximately RMB0.9 million, or 0.9%, from approximately RMB103.1 million for the six months ended 30 June 2022 to approximately RMB104.0 million for the Reporting Period, mainly due to the increase in the average selling price which was offset by a decrease of the sales volume because of the slow down in the vehicle urea solution demand during the Reporting Period. The average selling price of the Group's vehicle urea solution products increased by approximately RMB178 per tonne, or 10.5%, from approximately RMB1,698 per tonne for the six months ended 30 June 2022 to approximately RMB1,876 per tonne for the Reporting Period.

Methanol

Revenue from methanol decreased by approximately RMB5.1 million, or 6.6%, from approximately RMB77.7 million for the six months ended 30 June 2022 to approximately RMB72.6 million for the Reporting Period, as the average selling price of the Group's methanol products decreased by approximately RMB184 per tonne, or 9.8%, from approximately RMB1,870 per tonne for the six months ended 30 June 2022 to approximately RMB1,686 per tonne for the Reporting Period, mainly due to the decrease of energy prices during the Reporting Period. The sales volume of methanol increased by approximately 2.4% for the Reporting Period as compared to the six months ended 30 June 2022.

Other products

Other products include carbon dioxide, liquid ammonia, compound fertiliser and LNG. Revenue from other products decreased by approximately RMB39.5 million, or 36.0%, from approximately RMB109.7 million for the six months ended 30 June 2022 to approximately RMB70.2 million for the Reporting Period, mainly due to the decrease in revenue of the Group's liquid ammonia during the Reporting Period. The decrease in revenue of liquid ammonia was due to decrease in market demand in the Reporting Period.

Cost of sales

The Group's cost of sales increased by approximately RMB25.4 million, or 1.7%, from approximately RMB1,469.9 million for the six months ended 30 June 2022 to approximately RMB1,495.3 million for the Reporting Period, primarily due to the increase in electricity cost and manufacturing overhead costs, and such increase was partially offset by the decrease in raw material costs and labour cost during the Reporting Period.

Gross Profit and Gross Profit Margin

	Six months ended 30 June 2023		**Six months ended 30 June 2022**			
	Gross Profit/ (Loss)	**Margin**	**Gross Profit/ (Loss)**	**Margin**	**Change**	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Urea	**138,627**	**10.1**	246,779	17.3	(108,152)	(43.8)
Vehicle urea solution	**12,037**	**11.6**	11,487	11.1	550	4.8
Methanol	**(40,214)**	**(55.4)**	(38,020)	(48.9)	(2,194)	5.8
Other products	**13,963**	**19.9**	30,188	27.5	(16,225)	(53.7)
Total	**124,413**	**7.7**	250,434	14.6	(126,021)	(50.3)

The Group's gross profit decreased by approximately RMB126.0 million, or 50.3%, from approximately RMB250.4 million for the six months ended 30 June 2022, to approximately RMB124.4 million for the Reporting Period, primarily due to the decrease in the Group's revenue from sales of the Group's main product urea, mainly resulting from the decrease in the average selling price of such product as compared to the corresponding period of 2022. As a result of the decrease in the Group's revenue and the increase of cost of sales during the Reporting Period, the Group's gross profit margin decreased from approximately 14.6% for the six months ended 30 June 2022 to approximately 7.7% for the Reporting Period.

Other income

Other income increased by approximately RMB7.0 million, or 250.0%, from approximately RMB2.8 million for the six months ended 30 June 2022, to approximately RMB9.8 million for the Reporting Period, primarily due to increase in bank interest income and other miscellaneous income such as revenue from sales of scrap materials in the Reporting Period.

Other gains and losses, net

Other losses (net) decreased by approximately RMB1.9 million, or 22.4%, from approximately RMB8.5 million for the six months ended 30 June 2022, to approximately RMB6.6 million for the Reporting Period, primarily due to the gain on written off of trade payable and the increase in gain on investment recognised at fair value through profit or loss for the Reporting Period.

Administrative expenses

Administrative expenses decreased by approximately RMB5.3 million, or 17.7%, from approximately RMB29.9 million for the six months ended 30 June 2022 to approximately RMB24.6 million for the Reporting Period, primarily due to the decrease in provision for other receivables for the Reporting Period.

Distribution expenses

There was no material fluctuation for distribution expenses between the Reporting Period and the six months ended 30 June 2022.

Finance costs

There was no material fluctuation for finance costs between the Reporting Period and the six months ended 30 June 2022.

Taxation

Income tax expenses decreased by approximately RMB35 million, or 57.5%, from approximately RMB60.9 million for the six months ended 30 June 2022 to approximately RMB25.9 million for the Reporting Period primarily due to the decrease in profit before income tax.

Profit for the period

Profit for the period decreased by approximately RMB76.5 million, or 50.7%, from approximately RMB151.0 million for the six months ended 30 June 2022 to approximately RMB74.5 million for the Reporting Period. This was mainly due to the decrease in gross profit of approximately RMB126 million and the decrease in administrative expenses of approximately RMB5.3 million. The decrease in profit for the Reporting Period was partially offset by the increase in other income of approximately RMB7 million and decrease in taxation of approximately RMB35 million.

CAPITAL STRUCTURE

As at 30 June 2023, the Group had net assets of approximately RMB1,653.1 million (as at 31 December 2022: approximately RMB1,620.4 million), comprising of non-current assets of approximately RMB1,033.1 million (as at 31 December 2022: approximately RMB1,057.0 million), and current assets of approximately RMB831.8 million (as at 31 December 2022: approximately RMB812.1 million), which primarily consist of cash and bank balances amounted to approximately RMB624.0 million (as at 31 December 2022: approximately RMB535.5 million). Moreover, inventories amounted to approximately RMB55.2 million (as at 31 December 2022: approximately RMB129.3 million) and prepayments, deposits and other receivables amounted to approximately RMB143.9 million (as at 31 December 2022: approximately RMB137.6 million) are also major current assets. The Group recorded a net current asset position of approximately RMB655.0 million as at 30 June 2023 (as at 31 December 2022: approximately RMB600.0 million). Major current liabilities are trade payables amounted to approximately RMB39.9 million (as at 31 December 2022: approximately RMB50.1 million), other payables and accruals amounted to approximately RMB77.9 million (as at 31 December 2022: approximately RMB74.5 million) and contract liabilities amounted to approximately RMB50.7 million (as at 31 December 2022: RMB80.4 million).

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2023, the Group had cash and bank balances of approximately RMB624.0 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 30 June 2023, as the Group had no interest-bearing bank borrowings and had no bank and other borrowings repayable within five years, the gearing ratio for the Group (which is calculated based on bank and other borrowings of the Group divided by equity attributable to owners of the Company) was 0% (as at 31 December 2022: 0%). The Group would serve its debts primarily by 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

Looking forward to the second half of 2023, affected by the ongoing tension between Russia and Ukraine, the international energy shortage may lead to a continuous rise in global energy and food prices, and the world economy is expected to be full of uncertainty. Under the influence of shifting international relations, changes in the trade environment and domestic and foreign market factors, the urea and chemical industry will face a certain degree of challenges and opportunities. Affected by raw material prices, environmental protection requirements and changes in the international market, the prices of urea and chemical products may sometimes rise and sometimes fall, which would impact the operation and profit of the industry to a certain degree. Nevertheless, China is one of the world's largest fertilizer consumption markets, and urea is the main nitrogen fertilizer product, with the steady growth of China's economy and the government's emphasis on environmental protection, the urea and chemical industry will continue to strive to innovate and is expected to achieve sustained and stable growth, making greater contributions to China's agricultural and economic development.

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 borrowings in currencies denominated in Hong Kong dollars.

The Group does not have a formal foreign currency hedging policy nor 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 30 June 2023, capital commitment of the Group which had been contracted for but not provided in the financial statements was approximately RMB31.1 million (as at 31 December 2022: RMB20.6 million).

CHARGE ON ASSETS

As at 30 June 2023 and 31 December 2022, there was no charge over any assets of the Group.

CONTINGENT LIABILITIES

As at 30 June 2023, the Group did not have any material contingent liabilities (as at 31 December 2022: Nil).

EMPLOYEES AND EMOLUMENT POLICY

As at 30 June 2023, the Group employed a total of 1,299 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 RMB61.2 million (six months ended 30 June 2022: RMB61.8 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.

INTERIM DIVIDEND

The Board has decided not to declare an interim dividend for the Reporting Period.

AUDIT COMMITTEE AND REVIEW OF INTERIM RESULTS

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 and discussed with the management of the Group on the interim results of the Group for the Reporting Period, including the accounting treatment, principles and practices adopted by the Group, and discussed financial related matters, with no disagreement.

The interim results of the Group for the Reporting Period have been reviewed by the Company's auditor, BDO Limited, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants.

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 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 Part 2 of 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 INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This interim 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 interim 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 Chemcial Limited
東光化工有限公司
Wang Zhihe
Chairman

The PRC, 22 August 2023

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.